Members of the Board of Management
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Auditor General
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Edinburgh
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05 October 2006

Dear Board of Management/Auditor General

Report on the audit for the year ended 31 July 2006

We have now completed our audit of the College's accounts for the year ended 31 July 2006.

As part of our responsibilities as external auditor to the College we are required to submit, at the conclusion of each year's audit, a final report addressed both to the members of the Board of Management and to the Auditor General.

This report aims to summarise all significant matters which have arisen during the course of the audit and which we feel are worthy of members' attention.

We have pleasure in attaching our final report on the College's audit for the year to 31 July 2006, which will be submitted to the Board of Management.

We should like to take this opportunity to thank the Principal and his staff for their assistance during the course of the audit.

Yours faithfully

Baker Tilly

Enc

Aberdeen College

Report to those Charged with Governance

Year ended 31 July 2006

Presented to the Audit Committee on 21 November 2006

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This report has been prepared for the sole use of Aberdeen College and must not be disclosed to any third party, or quoted or referred to, with the exception of the Scottish Funding Council and Audit Scotland, without our written consent. No responsibility is assumed to any other person in respect of this report.

1. Executive Summary

Audit report

1. Our responsibilities and duties as auditor are summarised in Audit Scotland's Code of Audit Practice and are derived from the Public Finance and Accountability (Scotland) Act 2000. This report to the Board of Management and the Auditor General on the 2005/06 audit is a summary of audit activity for the year. The most significant issues identified by the audit are included in this section with more detail provided in the body of the report

2. We are pleased to record that there are no qualifications in our audit report on the College's 2005/06 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

Financial Performance

3. The income and expenditure account shows a consolidated surplus of £2,009k on the year's operations. The College's surplus is £1,996k. There were three adjustments made to the financial statements, which reduced the College surplus in the accounts presented for audit by £1k. The first adjustment related to the student support funds and arose from the audit of these funds. It was identified that £4k of childcare payments were incorrectly made from the bursary fund, which under SFC guidance is not allowed and so these payments were transferred to the childcare fund, hence reducing the surplus for the year by £4k. The second adjustment related to the classification of a VAT refund on the purchase of fixed assets. Initially the client had allocated this to the revaluation reserve, however upon discussion this was transferred to the capital cost of the related assets. The effect on the surplus for the year was an increase of £3k in relation to the related depreciation charge on this adjustment. The final adjustment also related to the VAT refund as the second adjustment detailed above impacted on the release made form the revaluation reserve by £3k. This did not affect the surplus for the year as this was simply a transfer between reserves.

4. As expected the College received the actuarial pension valuation whilst we were on site, which necessarily resulted in a £509k adjustment being required to increase the provision. Also as expected the financial statements were adjusted to take account of the Gift Aid payment of £623k from the College's subsidiary company ASET.

5. A small number of minor disclosure adjustments were required to the accounts, however these did not affect the financial or net asset position of the College.

6. A more detailed analysis of financial performance is undertaken at appendix D.

Significant Issues Arising

In general there were no major unexpected issues identified during our audit. The following matters were discussed and resolved with the College:

7. Discussions over the treatment of Balgownie Centre as it is being marketed for sale and therefore required consideration for inclusion as a current rather than a fixed asset under FRED 32.

8. Obligations to pay finance leases over the next three years were found not to have been disclosed as lease creditors, although as the total liability was within trade creditors, this was not adjusted.

9. Deferred capital commitments were found not to be being amortised over the remaining useful life of the asset, an unadjusted error of £10k has been included in section 12.

10. The College were found to have continued to provide the Students Association with grant funding of £29,186 despite the Association not meeting the terms of the grant as no Executive has been elected and the Association's accounts were qualified last year due to poor internal control. It should be noted that the Board acted to protect the public funds allocated to the Association at all times and in fact the grant was stopped as soon as the qualified accounts were issued. The College continues to cover an Administrators salary to ensure that important functions continue to be carried out.

11. Creditor's days were found to have increased, above the standard 30 days normally offered by suppliers, in the year.

All of the above have been covered in more detail in Section 3 and Appendix D.

Corporate Governance

12. Audit work has confirmed that overall the College's corporate governance arrangements are satisfactory and initiatives to strengthen any areas where possible improvements have been identified by the College are continuing. In our opinion, the corporate governance statement included in the accounts complies with the requirements of the SFC and the information disclosed is not inconsistent with other information of which we are aware from our audit.

Internal Audit

13. External audit placed reliance on the work of internal audit in all areas on which they reported in 2005/06. Deloitte's internal audit report for the year ended 31 July 2006 concluded that, based on the audit of the systems during 2005/06 and consideration of the College's risk profile, the College has reasonable internal control systems and reasonable arrangements in place to promote and secure value for money. It has been noted that at the time of internal audit's final visit of 2005/06, two of the ten internal audit recommendations followed up at that visit were ongoing, both of these were found to be being progressed towards implementation. They are considered priority two (important issues), and progress in implementing these is to be monitored.

Concluding Remarks

14. We are pleased to be able to formally conclude the audit of the College's 2005/06 accounts.

15. The key issues for action by the College arising from the audit are set out in an action plan at Section 8.

16. We would like to take this opportunity to convey our thanks to the Vice Principal and Director of Finance and Administration, the Finance Office Manager and the Management Accountants and other staff of the College with whom the audit team has had contact, for their courteous and helpful co-operation.

2. Introduction and coverage

1. This report summarises our key findings in connection with the audit of the financial statements of Aberdeen College in respect of the year ended 31 July 2006.

2. The scope of our work has already been communicated to you via our Audit Plan document dated June 2006.

3. Our audit has been carried out in accordance with statutory responsibilities under the Public Finance and Accountability (Scotland) Act 2000, and in accordance with the statements of international auditing standards (UK and Ireland) ("IAS") issued by the Auditing Practices Board, and the wider responsibilities embodied in the *Code*. Under this *Code* auditors address and comment upon a number of objectives, together with complying with a number of obligations.

Financial statements

4. Provide an opinion on, to the extent required by the relevant authorities, the College's financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board.

Corporate governance

5. Review and report on, to the extent required by relevant legislation and requirements of the *Code*, the College's corporate governance arrangements as they relate to the College's review of its systems of internal control; the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption and its financial position.

Performance audit

6. Review and report on, to the extent required by relevant legislation and requirements of the *Code*, aspects of the College arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

7. Audit Scotland has issued a document entitled *Statement of responsibilities of auditors and audited bodies* which accompanies the *Code*. This briefly summarises where the responsibilities of auditors begin and end and what is expected from the College. Your attention is drawn to this document.

8. We have planned our work with a view to ensuring:

    - minimum disruption to your staff and operations
    - that reports submitted to you are constructive and clear, focusing on the issues that matter
    - that surprises are avoided and that good communications are maintained with you throughout the assignment

9. A summary of adjusted and unadjusted misstatements identified during the audits has been prepared and is included in Section 11.

10. Appendix B sets out the additional services provided to the College in the year.

11. We consider that the audit approach adopted will provide the Audit Committee with the required confidence that a thorough and robust audit has been carried out.

3. Financial Statements and Related Matters

Introduction

1. The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 2005 and the Accounts Direction issued by the Scottish Funding Council (SFC), it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.

2. The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their audit opinion.

Audit Report

3. We are pleased to record that there are no qualifications in our audit report on the College's 2005/06 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

Financial Performance

4. The income and expenditure account shows a consolidated surplus of £2,009k on the year's operations. The College surplus is £1,996k. This represents a decrease from the previous year's consolidated surplus of £3,415k. The reduction is due to the fact that the College has been making a conscious effort to manage the level of student activity, after previously exceeding its SUMS targets, resulting in reduced tuition fee income. This is coupled with an increase in operating costs primarily relating to administration and other expenses costs.

5. The balance brought forward on the income and expenditure reserve at 1 August 2005 was £3,453k. A transfer of £490k was made from the revaluation and designated reserves to the income and expenditure reserve in relation to depreciation. A transfer of £17k was also made from the income and expenditure account covering legal expenses associated with the sale of the Balgownie Centre. After the surplus for the year of £2,009k is taken into account the balance on the College income and expenditure reserve at 31 July 2006 is £5,969k.

6. A more detailed analysis of financial performance is undertaken at Appendix D.

7. In May 2005 the Scottish Funding Council (SFC) published circular FE/22/05, which contained a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2004/05. While it is accepted that there are some valid criticisms of the methods of identifying unit costs and the fact that each college has some specific geographically relevant factors that influence costs they are a useful indication of one basis on which external readers will assess the College.

8. The indicators show that in 2004/05 the College was generally operating above the sector average in a number of areas:

- Underlying operating surplus
- Operating surplus as a percentage of total income
- Designated reserves plus income and expenditure reserves as a percentage of total income
- Current assets to current liabilities ratio
- Interest cover
- Days cash to total expenditure

Submission of Accounts

9. The accounts were submitted for audit on 26 September 2006 in line with the agreed timetable. The accounts submitted for audit were complete subject to the adjustments required when the pension provision was received. Working papers provided have been of a high standard and queries arising from the audit have all been resolved. Key staff were readily available for consultation throughout the audit process.

Issues Arising

10. During the course of the audit a number of minor issues arose which were resolved in discussion with, or formally reported to the Vice Principal and Director of Finance and Administration, the Finance Office Manager and the Management Accountants.

`This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.

Matters brought forward from the 2004/05 audit report

11. The annual transfer from the revaluation reserve was found to be based on revalued assets rather than being the difference between historical cost depreciation and depreciation based on the revaluation. The College has amended their calculations and these were found to now be correct.

12. The College's subsidiary, ASET, was found not to have performed particularly well in the previous year, leaving the College open to the risk of being seen to be subsidising ASET which is prohibited under the Charities Legislation. ASET's financial performance was found to have improved considerably in the current year mitigating such risks. At present the College does not appear to be at immediate risk of being seen to be subsidising ASET.

13. It was found that the VAT accrual had been overstated last year based on information received from HMC&E. Year end accrual agreed reasonable with reference to HMRC confirmation received at the year end.

14. It was highlighted that the Gift Aid payment from ASET to the College in 2005/06 should be agreed and minuted prior to the year end. This was minuted, and a resolution passed, prior to the year end. It was also found that the ASET Directors had agreed to adopt a Memorandum of Understanding with the Board which requires them to return all profits to the Board by means of gift aid. There was therefore not a problem with this this year.

15. It was found that the College had not accounted for a retention on the final Gordon Centre construction invoices. Construction invoices were reviewed in the current year and all retentions were found to have been accounted for appropriately.

Updates on the above matters have been presented in full at section 9.

Significant New matters arising in 2005/06

16. Review of the fixed asset register in the current year highlighted a leased asset addition; the obligations to pay the lease agreement on which had not been recognised as a lease creditor within both short term and long term creditors. This was shown as a trade creditor. After further investigation it was found that no lease agreement was in place at the year end and so this remains in trade creditors.

17. It was found that deferred capital grants were not being amortised over the remaining useful life of the asset. This has resulted in deferred capital grants being overstated in the financial statements by £10k.

18. The College was found to have continued to provide grant funding to the Students Association despite the Association not meeting the conditions of the grant, those being to establish and maintain procedures for the recording of all financial transactions. It should be noted that the Board acted to protect the public funds allocated to the Association at all times and in fact the grant was stopped as soon as the qualified accounts were issued. The College continues to cover an Administrators salary to ensure that important functions continue to be carried out.

19. The College was found to have capitalised a number of additions (NBV £14k), in particular carpeting, which are not considered to be tangible fixed assets under FRS 15.

20. Creditors days were found to have increased to 39 days in the current year from 29 in the preceding year. This could potentially result in the College being subject to penalties under the Late Payment of Commercial Debts Act.

Points to Note in 2005/06 financial statements

21. *Proposed Sale of the Balgownie Centre:* The College is currently marketing the Balgownie Centre for sale and have received a number of bids for this site. This has not been included within current assets as all bids are subject to planning permission which is unlikely to be granted in the next year. As such this asset has remained within fixed assets but disclosure has been increased.

22. *Computer equipment stock:* Included within stock is £493k relating to laptops being held for distribution to bursary students. The College were permitted by SFC to use bursary funds to purchase laptops to distribute to students. At the year end a proportion of these had actually been distributed and as such SFC would only permit the cost of the distributed laptops to be taken from the bursary fund. In essence then the College paid for the undistributed laptops and has included these as stock until such time as they are distributed, when bursary funds will be used.

23. *Pension and FRS 17:* The College contributes to the Local Authority scheme on behalf of some staff. This is a defined benefit scheme and the actuaries confirmed in 2003 that they were able to split the assets and liabilities between the constituent members of the scheme and thus Aberdeen College should be able to comply with the transitional requirements of FRS17 and disclose its potential liability for its share of the deficiency on the Scheme. On subsequent enquiry of the actuaries in 2004 it appeared that whilst Aberdeen College's share of liabilities could be specifically allocated, the share of assets was attributed on a pro rata basis. It therefore appeared reasonable under the terms of FRS17 for the college to account for the Scheme as a defined contribution scheme and therefore not to disclose the deficiency of assets attributed nominally to it. The same policy has been followed this year and therefore no liability for the deficiency of liabilities was required to be recognised in the Income and Expenditure account.

    However, it should be noted that while a specific element of the deficiency of assets in the Scheme cannot be allocated to the College, it is likely that while this deficiency continues the levels of ongoing pension contribution will put future demands on the College's resources.

24. *Capital Commitments:* The accounts note 26 discloses capital commitments at 31 July 2006 of £9.3 million. £6.8 million of this relates to a new building that is to be constructed at Altens for construction trade course and training. This has been authorised by the Board but has not been contracted for at the year end.

4. Corporate Governance

Introduction

1. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. The College has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.

2. As auditor we have a responsibility to report on the College's corporate governance arrangements.

System of Internal Council

General arrangements

3. A review and assessment of the College's corporate governance arrangements was carried out. This assessment included a review of the College's committee minutes and completion of a number of standard checklists. The checklists cover issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct, issues of legality and the College's financial position. This work confirms that overall the College's corporate governance arrangements are satisfactory and initiatives to strengthen any areas where possible improvements have been identified by the College are continuing.

4. In our opinion, the corporate governance statement included in the accounts complies with the requirements of the SFC and the information disclosed is not inconsistent with other information we are aware of from our audit.

Financial Systems

5. It is the responsibility of management to maintain adequate financial systems and associated internal controls. The auditor evaluates the significant financial systems and the associated internal controls, both for the purpose of giving an opinion on the statement of accounts, and in order to report to the College on the adequacy of such systems and controls. Audit's work confirmed that overall the financial systems are adequate for the purpose of producing the financial statements. The most significant issues to be addressed are detailed at Section 8.

6. It is emphasised that the weaknesses identified are only those that have come to the attention of the auditor during the normal audit work in accordance with the Code of Audit Practice and, therefore, are not necessarily all the weaknesses which may exist.

Fraud and Corruption Arrangements

7. During 2005/06, no instances of fraud were identified by the College.

8. The College's arrangements for preventing, detecting and identifying fraud and corruption were assessed during the audit. This assessment included a review of the College's committee minutes and completion of a standard checklist. The work confirms that overall the College's fraud and corruption arrangements are adequate.

Review of Internal Audit

9. Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control systems established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

10. Internal audit services were provided by Deloitte. An assessment was made of the adequacy of the internal audit input and it was concluded that external audit can place formal reliance on the work of internal audit. Accordingly reliance was placed on the work of internal audit in all areas on which they reported in 2005/06.

11. Deloitte's internal audit report for the year ended 31 July 2006 concluded that, based on the audit of the systems during 2005/06 and consideration of the College's risk profile, the College has reasonable internal control systems and reasonable arrangements in place to promote and secure value for money.

5. Performance Audit

1. It is the College's responsibility to ensure that proper arrangements are in place to secure the economy, efficiency and effectiveness in the use of its resources. As part of the auditor's statutory responsibilities we are required to satisfy ourselves that the College has made appropriate arrangements to fulfil its responsibilities

2. Throughout our five year audit appointment, the Performance Audit Section of Audit Scotland will, from time to time, require auditors to undertake field work on topics which form part of Audit Scotland's VFM centrally directed studies programme. No such studies were included within the 2005/06 programme for the FE sector.

3. SFC indicators: As reported in section 3 of this report the SFC now publishes performance indicators (PIs) which assess the financial performance of further education colleges. Also, SFC now publish student and staff performance indicators for further education colleges, which they use for benchmarking purposes. The College is to keep the inter-college comparisons produced by SFC under review, to identify areas where current practices could be reviewed to further improve performance, by sharing and discussing good practice with other Colleges.

6. Audit and accounting issues identified at planning stage

Key area of audit focus	Our approach	Resolution
The release of depreciation from the revaluation reserve is a key area of audit focus due to the fact that there was a prior year adjustment made to the financial statements in 04/05 in respect of this.	Our approach will be to review your workings to satisfy ourselves that the transfer is the difference between historical cost depreciation and depreciation based on revaluation and not the full depreciation charge based on revalued assets.	Workings were reviewed and the transfer from the revaluation reserve was correctly found to be the difference between historical cost depreciation and depreciation based on revaluation.
Calculation of the pension provision in line with SFC guidance.	Our approach will be to review your calculations and satisfy ourselves that the provision has been calculated using a factor based on guidance issued by SFC and that it appears a reasonable provision based on information available.	Pension calculations were reviewed and the provision agreed as reasonable after agreeing it had been calculated using a factor based on guidance issued by the SFC.
It is normal practice for the College's subsidiary to Gift Aid its profits to the College to minimise tax payable to the Group, this has a material effect on the College's results, particularly as we understand this has been a successful year for ASET. Any accrual for this must be in line with FRS 21.	FRS 21 stipulates that the Gift Aid cannot be recognised in the financial statements if not agreed prior to the year end as this does not constitute a binding obligation and hence a liability. Our approach will therefore be to review whether this decision has been agreed and minuted prior to the year end.	Minutes review highlighted that the Board of Management requested that the Directors of ASET be required to adopt a Memorandum of Understanding for the financial year. This stipulates that ASET are required to return all profits to the Board by means of gift aid.
VAT will be a key area of focus for the audit due to the number of ongoing VAT assessments, the Partial Exemption status of the College and the issue which arose during the 04/05 audit of an over accrual of the VAT due.	We will review the basis of calculation of the VAT accrual in relation to these assessments in line with the statements issued by HMC&E during the year.	VAT calculation reviewed and vouched to confirmation from HMRC confirming liability at the year end. Agreed accrual in the current year appears reasonable.

Key area of audit focus	Our approach	Resolution
Identification, treatment and disclosure of related party balances between the College and ASET, including consideration of appropriateness of charges in line with Transfer Pricing regulations. Also the valuation of any fixed assets donated to ASET from external sources.	We will review all transactions between the two entities and consider whether these are appropriately treated and disclosed in the financial statements. All transactions must be on an arms length basis and we will review this to satisfy ourselves that the College is not subsidising the subsidiary.	Inter-company transactions were considered whilst reviewing group balances. All transactions appear to have been charged in line within Transfer Pricing regulations per our review of invoices and nominal activity.
The preparation of consolidated financial statements and resultant validity of disclosures.	After having carried out a full audit on both the College and ASET we will perform a detailed check of the consolidation workings and full review of the consolidated financial statements. We will utilise our automated disclosure checklist to identify any omissions in disclosure.	Consolidation workings reviewed, in detail, and agreed reasonable. The consolidated financial statements have also been subject to our automated disclosure checklist and all omissions discussed and amended. Full cast of the consolidated financial statements was performed to ensure all notes tied to the primary statements and adds agreed.
It is important that accruals are included for retentions on any construction work carried out in the year. This has resulted in unadjusted errors in the past.	We will conduct a review of the work you have done to ensure that any construction invoices for future retentions are accounted for appropriately as creditors.	Capital works were reviewed and it was found that retentions per construction invoices were adequately accounted for within creditors.
A key area of our audit focus will be ensuring that the College is not seen to be subsidising ASET, its subsidiary company, as this is prohibited under both Charities legislation and SFC guidance.	As you are aware we conduct a full audit of the financial statements of ASET and after the completion of the audit we will consider the financial position, and performance of ASET during the year, and the impact this may have on the College going forward. We will consider the recoverability of any intercompany debt.	ASET has performed well in the year achieving a profit of £10k compared to a loss in the preceding year of £4k after Gift Aid payment to the College. The College therefore is not considered to be subsidising ASET. Inter-company balances considered and agreed that debts owed to the College are recoverable within one year and reasonable terms of repayment exist.

Key area of audit focus	Our approach	Resolution
International Auditing Standards, which came into effect on 1 January 2005, require us to document more fully the key controls within the College’s systems, and consideration of key business and operational risk and the organisations culture, in relation to formal management.	Discussion and documentation of key controls over completeness of income, accuracy of payroll costs and validity and accuracy of other costs together with walk through tests.	Full systems notes documented in accordance with International Auditing Standards and walk through testing performed. College policies and procedures also obtained and filed on our permanent audit file for reference. There were no major issues found.

7. Audit and accounting issues identified during the audit

Issue	Resolution
Leased Equipment Review of the fixed asset register identified two leased assets for which the obligation to pay the lease creditor over the next three years had not been recognised as a lease creditor in the financial statements.	After further investigation it was found that one of these assets was in fact purchased outright so there is no issue. As regards the second asset, although the intention is to lease this asset, there was no lease agreement in place at the year end and so there is also no issue with this. Both remain in trade creditors.
Deferred Capital Grants It was noted that the deferred capital grant was not being released over the remaining useful life of the relevant asset resulting in deferred capital grants being amortised in the financial statements.	The variance between the expected and actual release was found not to be material hence has not been adjusted for. This issue however, has been included within internal control issues at section 8.

8. Internal control issues

Matters arising in this year's audit

We have set out below those areas of internal control weakness that we consider should be brought to the attention of the Audit Committee which arose as a result of our audit work. This does not constitute a comprehensive statement of all weaknesses that may exist in internal controls or of all improvements which may be made.

Fact and potential consequence	Recommendations	Management response	Timing of implementation and responsibility
Deferred Capital Grants It was found that the deferred capital grant was not being released in line with the remaining useful life of the relevant asset. This has resulted in deferred capital grants being overstated in the balance sheet.	We would recommend that a spreadsheet be maintained detailing the remaining life of the asset and the grant remaining in order to calculate the correct annual amortisation of the grant.	The recommendation is accepted.	Responsibility: Director of Finance and Administration Timing: December 2006
Capitalisation Policy It was found that a number of items of flooring had been capitalised within the fixed asset register. Flooring, in particular carpets, should not be capitalised under FRS 15 Tangible Fixed Assets. This amounted to £17k and due to its immateriality has not been adjusted in the financial statements.	We would recommend that the College update their capitalisation policy to detail specifically what should be capitalised and which should be expensed.	The recommendation is accepted.	Responsibility: Director of Finance and Administration Timing: December 2006

Fact and potential consequence	Recommendations	Management response	Timing of implementation and responsibility
Creditors Days It was noted that creditors days has increased to 39 days in the current year (2005: 29 days). Normal credit terms offered are 30 days, therefore the College could be exposing itself to penalties under the Late Payments of Commercial Debts Act.	We would recommend that the College attempt to pay all suppliers within the standard 30 day credit terms to avoid potential interest penalties and poor credit ratings and as a matter of good practice.	The formula used to calculate the number of days credit does not take into account timing differences that might arise. The level of trade creditors at the year-end was unusually high due to the value of capital building works in progress during the period around the year-end. The College adheres to a policy of settling debts within 30 days and the apparent variance is due to timing differences.	-
Recoverability of Debtors Whilst reviewing the recovery of trade debtors is was noted a balance of £28k owed by S&D Contracts had remained static for over 18 months. It is highly unlikely that this balance will be recoverable.	Whilst we recognise that a specific bad debt provision is in place, there should be a point at which credit control deem the debt irrecoverable and it should be written off in full.	It is the College's view that there is a reasonable prospect of recovery of this debt. The debt is provided for in full and will be written off when it is appropriate to do so. The position will be kept under review.	Responsibility: Director of Finance and Administration Timing: March 2007
Outstanding Cheques It was found that a number of outstanding cheques over six months old remained on the bank reconciliation. After six months it is deemed unlikely that these cheques will be presented for payment.	When outstanding cheques exceed six months old, we would recommend that these be removed from the bank reconciliation and included within creditor balances. Under money laundering regulations, these should not be written off.	The recommendation is accepted.	Responsibility: Director of Finance and Administration Timing: December 2006

Fact and potential consequence	Recommendations	Management response	Timing of implementation and responsibility
Aged Creditor Review The College has an Aged Creditor Review Procedure, however it was found that this procedure is not followed in practice, with most staff being unaware of its existence. In particular, it was found that the aged creditors listing was not being signed to evidence review by the Management Accountant, and no evidence was filed to document investigation of balances.	Whilst it was found that adequate controls were in place over the aged creditor review, it was found that current practice did not reflect the College's set procedures. We would recommend that the Aged Creditor Review Procedure be updated to reflect current practice and be made available to all relevant staff members.	The recommendation is accepted.	Responsibility: Director of Finance and Administration Timing: December 2006
Sales Invoices Our review of policies and procedures noted that the green copy of a sales invoice should be signed as approved by both the Assistant Management Accountant and the Assistant Accountant. It was found on a number of occasions however that this had only been approved by the Assistant Accountant.	We would recommend that controls are enforced and that sales invoices be signed by both the Assistant Management Accountant and the Assistant Accountant. This ensures that adequate segregation of duties are in place and a sufficient audit trail.	The recommendation is not accepted. The procedure was revised in October 2006 as part of a review of all Business Office procedures and the Assistant Accountant signs sales invoices.	-
Credit Notes College procedures note that when a credit is raised, the original copy credit note is raised, the original copy of the sales invoice should be marked as cancelled. We found that this was not occurring in practice.	We would recommend that procedures are followed and sales invoices marked as cancelled to provide a sufficient audit trail.	The recommendation is accepted.	Responsibility: Director of Finance and Administration Timing: December 2006

Fact and potential consequence	Recommendations	Management response	Timing of implementation and responsibility
<u>Debit balance within creditors</u> Whilst reviewing debit balances within creditors it was found that one of the debit balances had arisen after payment was made to a supplier twice, once by direct debit and then by BACS in error.	We would recommend where suppliers are paid by direct debit a record should be kept on the system under the supplier's details to prevent balances being paid by other means in error.	The recommendation is accepted.	Responsibility: Director of Finance and Administration Timing: December 2006

9. Internal control issues 2004/05

Matters arising in the prior year audit

We have set out below a follow up of those areas of internal control weakness which arose during the 2004/05 audit.

Fact and potential consequence	Recommendations	Management response	Update
Prior to the commencement of the audit the College had recognised the need for a prior year adjustment in relation to the annual transfer from the revaluation reserve to the income and expenditure account in relation to depreciation. From 2000 the transfer made each year consisted of the full depreciation charge based on revalued assets when this should have been the difference between historical cost depreciation and depreciation based on revaluation.	The College should ensure that the transfer made in all future years from the revaluation to the income and expenditure account is correct. This should take account of any revaluations.	<u>Action</u> The review of the amounts transferred will be undertaken annually. <u>Responsibility</u> Vice Principal <u>Timescale</u> July 2005	The annual transfer from the revaluation reserve was reviewed in full and the transfer found to correctly constitute the difference between historical cost depreciation and depreciation based on the revaluation.

Fact and potential consequence	Recommendations	Management response	Update
The College's subsidiary undertaking, ASET, has not performed particularly well this financial year. This has resulted in the company having net current liabilities of £443k and net assets of only £13k. This indicates short-term liquidity problems for the company. As such there may be a future risk to the College in that it may be seen to be subsidising ASET, which is prohibited under charities legislation.	We area aware that the College has recognised the current financial situation of ASET and takes very seriously the implications for the College in relation to this. The College must continue to keep the financial performance of ASET under review.	Action Established governance and financial management arrangement will be maintained to ensure that there continues to be appropriate oversight of companies operations. Responsibility College Board of Management and company Board of Directors. Timescale Ongoing	The financial statements of ASET for the year ended 31 July 2006 have been audited. Significant improvements were noted in ASET's performance in the current year with net assets increasing to £639k and net current liabilities improving to £202k. Our minutes review also highlighted that ASET's performance is reported regularly to the Board. At present the College does not appear to be at immediate risk of being seen to be subsidising ASET.
It was noted that the accrual in the financial statements for VAT in relation to a number of ongoing VAT assessments is overstated by £54k based on the latest statement from the HMC&E. The College has made a decision to adjust for this in the 05/06 financial year.	The College should ensure that the VAT accrual is adjusted accordingly throughout the year based on the statements issued by HMC&E.	Action The VAT accrual will be adjusted when statements are received from HMC&E. Responsibility Vice Principal. Timescale October 2006 and quarterly thereafter.	The VAT accrual was found to be fully supported by confirmation statements issued by the HMRC. Accrual in the year agreed reasonable.

Fact and potential consequence	Recommendations	Management response	Update
It was noted that the Gift Aid payment from ASET to the College is not agreed and minuted by the Board of ASET prior to the year-end. Under FRS 21 and taking effect for financial year 05/06 any Gift Aid, or similar payments from subsidiaries to parent companies, cannot be recognised in the financial statements if not agreed prior to the year end as this does not constitute a binding obligation and hence a liability.	The College must ensure that the Board of ASET agree and minute the decision to pay profits up to the College as Gift Aid *before* the year-end. This could state that the Board agrees to pay gift aid to the College up to a level that reduces the tax liability in ASET to nil or some other amount. We would be happy to discuss this area further should this be required.	<u>Action</u> The Board of Directors of ASET will consider payment of gift aid prior to year-end. <u>Responsibility</u> Company Secretary of ASET. <u>Timescale</u> July 2006	Our minutes review highlighted that the Directors of ASET were to adopt a Memorandum of Understanding which specifically states that ASET are required to return all profits to the Board by means of Gift Aid. Adoption of the above Memorandum constitutes a decision as to the payment of Gift Aid to the College prior the year end.
It was found that the College had not accounted for a retention of £48k on the final Gordon Centre construction invoice.	The College must ensure that a review is conducted of all construction invoices so that any future retentions are accounted for appropriately as creditors.	<u>Action</u> The financial position of construction projects will be reviewed as part of the process of preparing monthly management accounts. <u>Responsibility</u> Vice Principal <u>Timescale</u> Oct 2005	Construction invoices reviewed and all retentions found to have been accounted for. The College has undertaking significantly less capital works in the current year.

10. Significant accounting policies

- The consolidated financial statements include the College and its subsidiary undertakings, Aberdeen Skills and Enterprise Training Limited and Clinterty Estates Limited. Intra-group sales and profits are eliminated fully on consolidation. The activities of the Aberdeen College Students Association have not been consolidated because the College does not control these activities.

- The College participates in the Scottish Teacher's Superannuation Scheme, a defined benefit scheme, which is externally funded and contracted out of State Earnings-Related Pension Scheme. The assets of the scheme are in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contibutions to the scheme are accounted for as if it were a defined contribution scheme.

- Retirement benefits to employees of the College are provided by the Teachers' Superannuation Scheme (Scotland) (STSS) and the Local Government Superannuation Scheme (LGSS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings Related Pension Scheme. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. Variations from regular costs are spread over the remaining working lifetime of members of the schemes after making allowances for further withdrawals. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method.

11. Uncertainties, risks, exposures, estimates and judgemental issues

Set out below are those matters that we have identified in respect of the above, during the course of our work, that we consider should be brought to the attention of the Audit Committee.

College	Key Issue	Audit Impact	Resolution
Aberdeen College	**Balgownie Centre** The College currently have land at Balgownie Centre marketed for sale and have received a number of bids for the site, however all are subject to the receipt of planning permission.	The decision had to be taken as to whether this site should be presented in the financial statements as a current, rather than a fixed, asset.	The sale of Balgownie remains uncertain. Planning permission is unlikely to be granted on the property for a number of years, a condition of several bids; hence it is not felt appropriate to reallocate the property to current assets. Disclosure has been increased.
Aberdeen College	**Computer Equipment** The College were granted permission by the SFC to utilise a proportion of their bursary spend on laptops for distribution to bursary students. A significant number of these laptops remained undistributed at the year end, hence the College included them within stock, resulting in a £500k movement in stock in the current year.	Consider whether it is appropriate to include these laptops within stock.	At the year end the laptops were currently valued at the lower of cost or net realisable value and a decision could still be made not to distribute from Bursary and the benefit to the student on distribution is still an asset.

12. Unadjusted/adjusted misstatements

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement.

College	Adjusted misstatements		Unadjusted Misstatements Factual		Unadjusted Misstatements Judgemental	
	Income& Expenditure effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	Income& Expenditure effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	Income& Expenditure effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s
Outstanding cheques over 6 months old written off – Hardship Current Account				2 (2)		
Outstanding cheques over 6 months old written off – Expenditure Account				3 (3)		
Additional release of deferred capital grant in line with amortisation policy			(10)	10		
Reallocation of carpets wrongly capitalised (NBV)			14	(14)		
Upward revaluation of crop stock			2	(2)		
Childcare paid from bursary fund in error	4	(4)				
Depreciation of Balgownie			55	(55)		
Incorrect allocation of loan repayments				13 (13)		

College	Adjusted misstatements		Unadjusted Misstatements Factual		Unadjusted Misstatements Judgemental	
	Income& Expenditure effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	Income& Expenditure effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	Income& Expenditure effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s
Transfer of adjustment to revaluation reserve to capital costs of assets:						
Transfer from revaluation reserve to fixed assets		62 (62)				
Related depreciation	(3)	3				
Total	1	(1)	47	(47)		

13. Concluding Remarks

1. We are pleased to be able to formally conclude the audit of the College's 2005/06 accounts.

2. The key issues for action by the College arising from the audit are set out in the attached action plan.

3. We would like to take this opportunity to convey our thanks to the Vice Principal and Director of Finance and Administration, the Finance Office Manager, and the Management Accountants and other staff with whom the audit team has had contact, for their courteous and helpful co-operation.

Baker Tilly

Appendix A – Emerging issues

Emerging issues

Procurement policy

Over the next two years the FE sector is tasked to deliver a high level of savings. In order to achieve this all colleges will need to make significant changes in the way they manage procurement.
To achieve these savings the college will need to establish effective and consistent procedures and controls, and review its policy for procurement of goods and services to ensure that value for money is obtained on all contracts for goods and services and any areas where efficiencies and savings could be made. The college should review its purchasing strategy to consider whether savings could be achieved via:

- Price reduction
- Cost avoidance
- Added value
- Improvements to the purchasing process

VAT on new building works

Colleges recognise that if they construct a building predominately for the use of grant funded students (e.g. those under 19) the construction of the building will not be subject to VAT. The position becomes more problematic the greater the business use of the new building. Business use can come in many forms, such as sales of meals to non-students, vending machines, photocopying charges and hire of premises as well as any charges to students by way of fees, even if heavily subsidised by the SFC.

However greater opportunities are now available given the Court of Session judgement in Telford College that a further education college is a public body which provides non-business education, even to fee paying students. The college needs to determine whether it has paid VAT on the construction of new buildings, or parts of buildings in recent years. If so, retrospective claims can be made for VAT relief.

The College undertook building works in respect of continual capital works on the Gordon Centre Sports Facility and various other refurbishment projects in 2005/06. The College needs to ensure that any VAT that may fall due in respect of these projects is correctly treated.

The College is to embark on a new property development in 2006/07 to build a training centre at Altens for construction trades.

Certain VAT reliefs are available as follows:

i) construction of new non-business charitable building (or parts thereof)
ii) construction of new residential buildings
iii) alterations to listed buildings providing the buildings qualify under (i) and (ii) above
iv) 5% VAT rate for the creation of some types of residential building
The college should ensure that the project is structured in the most efficient way at the initial planning stage to ensure that maximum benefit is obtained for any reliefs that maybe available.

Land disposals

There is a risk that certain profits from the disposal of land could be taxable under section s776 of ICTA 1988. This section applies where land is developed with the sole or main object of realising a gain from disposing of land when developed. In particular when the disposal proceeds are contingent on development, e.g. the deal involves a fixed sum, plus overages depending on how many houses the developer builds. Any proceeds in respect of the contingent element will be liable to s776 tax.

(Aberdeen College is planning to dispose of land and buildings at its Balgownie Centre site for £8-£18million in future years)

ASB Convergence Plan

The ASB is pursing a programme of convergence between UK Accounting standards and IFRS by issuing new UK standards that are based on IFRS. As a result, over time, all UK entities will be preparing their financial statements in accordance with standards based on the same core set of IFRS. The ASB remain at consultation stage in respect of this convergence, which may not impact on organisations in the UK other than plcs and larger entities.

Draft Statement of Principles for Public Benefit Entities and the Charities SORP

It is possible that at some point in the future colleges will be required to comply with the Statement of Principles for Financial Reporting Proposed Interpretation for Public Benefit Entities (currently in draft) or the Charities SORP. The main impact of these two proposals would be the on recognition of deferred capital grants. Colleges currently recognise grants under SSAP 4, i.e. the grant is released to the income and expenditure account over the life of the assets acquired with the grant, whereas under the statement and the Charities SORP they would need to recognise all the income in the income and expenditure account on receipt

Report by the Board of Management

As best practice it is recommended that the college's report by the Board of Management should consider changing to more closely resemble the trustees report in the Statement of Recommended Practice "Accounting and Reporting by Charities" (SORP 2005).

Financial Reporting Exposure Drafts ("FRED)

(a) Proposed Amendment to FRS 17: Retirement Benefits

On 31 May 2006, the ASB published an exposure draft setting out proposals to amend FRS 17 'Retirement Benefits' and to issue a new Reporting Statement 'Retirement Benefits – Disclosures'.

The amendment achieves convergence on disclosure requirements between IAS 19 and FRS 17 by replacing the disclosure requirements in FRS 17 with those of IAS 19.

The FRED proposes the amendment to FRS 17 should be effective for accounting periods ending on or after 31 December 2006.

(b) FRED 39: Amendments to FRS12

The Exposure Draft no longer uses the term 'provision' but refers to 'non-financial' liabilities, and no longer applies the terms 'contingent liabilities and assets'. A non-financial liability is a liability other than a financial liability, i.e. any financial liability that is not a contractual obligation that gives rise to a financial asset of one enterprise and a financial liability/equity instrument of another.

The Exposure Draft uses the term ‘contingency’ to refer to an uncertainty about the amount that will be required to settle the liability, rather than uncertainty as to whether the liability exists. It also distinguishes between conditional and unconditional obligations, whereby all unconditional obligations that meet the definition of a liability are considered for recognition.

The probability criterion is moved from recognition to measurement of the liability which will lead to more liabilities being recognised, e.g. if a college was being sued for damages of £5 million, with a 25% chance of losing the case, under the new proposals a non financial liability would be provided for of £1.25 million, rather than disclosure as a contingent liability under FRS12.

Effective date: Periods commencing on or after 1 January 2007.

Updated Combined Code on Corporate Governance

On 27 June 2006 the Financial Reporting Council (“FRC”) published an updated version of the Combined Code on Corporate Governance (“Combined Code”). The Listing Rules will not formally apply to the revised Combined Code until a consultation exercise, which is expected to start in September 2006, has been carried out by the Financial Services Authority. However, the FRC have indicated that in view of the limited nature of the changes and the strong support they had received, they would encourage listed companies and their investors to adopt the updated Combined Code on a voluntary basis for reporting years commencing on or after 1 November 2006.

The college currently applies the principles set out in the revised Combined Code on Corporate Governance issued by the London Stock Exchange in July 2003, and will be required to comply with the updated Combined Code. As best practice the college should consider adopting the updated Combined Code on a voluntary basis for the year ended 31 July 2007.

Financial Memorandum

A new Financial Memorandum is in place from January 2006, in order to reflect the current financial relationships between Colleges and the SFC, as well as the requirements on Government and the SFC and good practice that has emerged over the years.

BAKER TILLY

Appendix B – Additional services

BAKER TILLY

Additional Services

Under the interim Audit Code of Practice we are required to report to the audit committee any services we performed for the college in addition to the external audit of the financial statements. For the year to 31 July 2006 we provided the following additional services at a cumulative value of £14,725.

• EMA Audit	£1,775
• VAT Advice (Lennartz)	£5,400
• SUMS Audit	£2,850
• SSF Funds Audit	£2,850
• ESF Audit	£1,850

Appendix C – Letter of representation

Dear Sirs

AUDIT OF FINANCIAL STATEMENTS – YEAR ENDED 31 July 2006

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries of other officials of the college, the following representations given to you in connection with your audit of the college's financial statements for the year ended 31 July 2006**.**

1. We acknowledge as governors our responsibility for the fair presentation of the financial statements in accordance with United Kingdom Generally Accepted Accounting practice. All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the college have been properly reflected and recorded in the accounting records. All other records and related information and explanations, including minutes of all meetings of governors, committees of governors and management held between the beginning of the accounting period and the date of this letter, have been made available to you. We confirm that as far as we are aware, there is no relevant audit information of which the auditors are unaware.

2. We confirm that:

   a. We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud;

   b. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;

   c. We have disclosed to you our knowledge of fraud and suspected fraud affecting the college involving:

      i. Management;
      ii. Employees who have significant roles in internal control; and
      iii. Others where the fraud could have a material effect on the financial statements; and

   d. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the college's financial statements communicated by employees, former employees, analysts, regulators or others.

3. We have not adjusted the following misstatements, which were drawn to our attention by the auditors, because they are immaterial to the overall disclosure of the financial statements.

	Value £	I & E Effect £
Outstanding cheques over 6 months old written off - Hardship	1,696	-
Outstanding cheques over 6 months old written off - Expenditure	3,198	-
Additional release of deferred capital grant in line with amortisation policy	10,477	10,477
Reallocation of carpets incorrectly capitalised (NBV)	13,949	(13,949)
Upward revaluation of crop stock	1,998	(1,998)
Depreciation of Balgownie Centre	55,000	(55,000)
Incorrect loan repayment allocation	13,000	-
Net Income and Expenditure Effect		(60,470)

4. We confirm that full disclosure is made in the financial statements of:-

   a. any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans, or credit transactions) for senior post holders;

   b. Transactions and balances with related parties (including members of the corporation and senior post holders) including:-

      i. the names of the transacting parties;
      ii. a description of the relationship between the parties;
      iii. a description of the transactions;
      iv. the amounts involved (even if nil);
      v. any other elements of the transactions necessary for an understanding of the financial statements;
      vi. the amounts due to or from related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
      vii. amounts written off in the period in respect of debts due to or from related parties;

   c. outstanding capital commitments contracted for at the balance sheet date;

   d. all contingent liabilities including details of pending litigation and material claims against the college;

   e. all guarantees or warranties or other financial commitments.

5. We have disclosed all events of which we are aware which involve possible non-compliance with those laws and regulations which provide a legal framework within which the college conducts its business and which are central to its ability to conduct that business. We have also notified you of the actual or contingent consequences which may arise from such non-compliance.

6. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

   There have been no events (other than those already disclosed in the financial statements) since the balance sheet date, which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should such further material events occur prior to your signature of the audit report we will advise you accordingly.

   Fixed assets

7. Disposals - Buildings, plant and equipment, which have been disposed of, scrapped, or otherwise taken out of use, have been eliminated from the financial statements.

8. We confirm that all additions made to fixed assets in the year were additional assets required and not replacements of assets disposed of in the year. No disposals were made in the current year.

9. We confirm that the Balgownie Centre has been marketed for sale and an agreement to sell the site has been established, subject to a soil survey and the purchaser obtaining planning permission in satisfactory terms to develop the site. Due to the conditions attached to the sale the this property remains within fixed assets.

Internal Audit

10. To the best of our knowledge and belief all internal audit reports and reports from Deloitte and Touche LLP have been made available to you.

Partnerships and other relationships

11. To the best of our knowledge and belief we have made available to you details of all partnerships, franchises, joint ventures, subsidiary companies, associated companies and trusts that the college is associated with.

Income sources/initiatives

12. To the best of our knowledge and belief the college has complied with the terms and conditions attached to all income brought into the financial statements, including meeting non-financial targets and outcomes as required, and has provided you with details of all income sources.

13. The college has carried out appropriate procedures to ensure that it has not claimed double funding for blocks of provision or individual students.

European Structural Funds

14. To the best of our knowledge and belief we have made available to you details of any involvement in activity funded from European Structural Funds (ERDF and ESF and other as appropriate) and income received in respect of that activity and the college has complied with any terms and conditions attached to that income.

15. We have made available to you copies of any audit reports relating to claims for European Structural Funds.

16. The college has satisfactory title to all assets and there are no liens or encumbrances on the college's assets, except those disclosed in Note 19.

17. The financial statements are free of material misstatements, including omissions.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

The contents of this letter were considered and approved by the Board at its meeting on …............................ 2006.

Yours faithfully

Signed on behalf of the Board of Aberdeen College

Chairman ....…………………..............

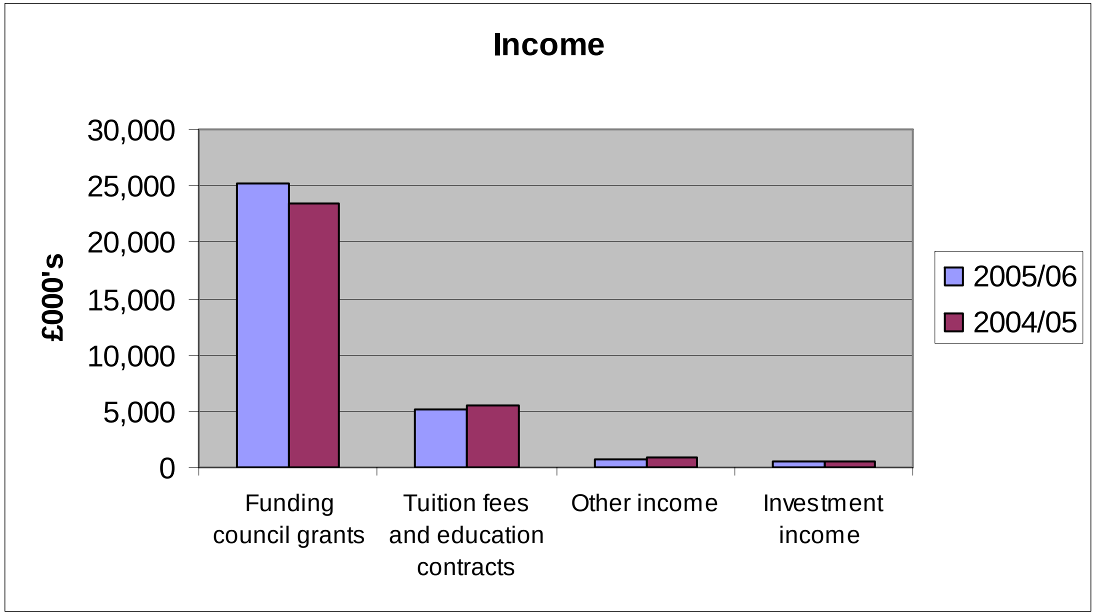
Principal............……………..……………..

Date ……………………… 2006

Appendix D – Analysis of Financial Performance

Detailed analysis of financial performance

Income



Source: Audited financial statements

Funding council grants

Increase of £1,771k in the current year, primarily due to increases in SFC recurrent grant funding (£1,077k) and two significant one off grants being one-off allocation for non-recurring purposes (£591k) and school-college partnership funding (£329k). This was coupled with the absence of a capital major adaptations grant of £294k and ICT Staff Development grant of £214k which had been received last year.

Tuition fees and education contracts

Marginal increase of £365k in the year due to the College benefiting from increased other funded tuition income of £695k, however this was offset by the loss of the prison and nursing education contract of £100k. Tuition fees have also fallen in the year by £296k as a direct result of the College managing student activity down after having exceeded there SUMS targets on a number of occasions.

Other income

Other income has fallen by £87k in the year primarily due to College taking the decision to no longer provide residences at Clinterty after concluding that this activity was not proving cost-effective.

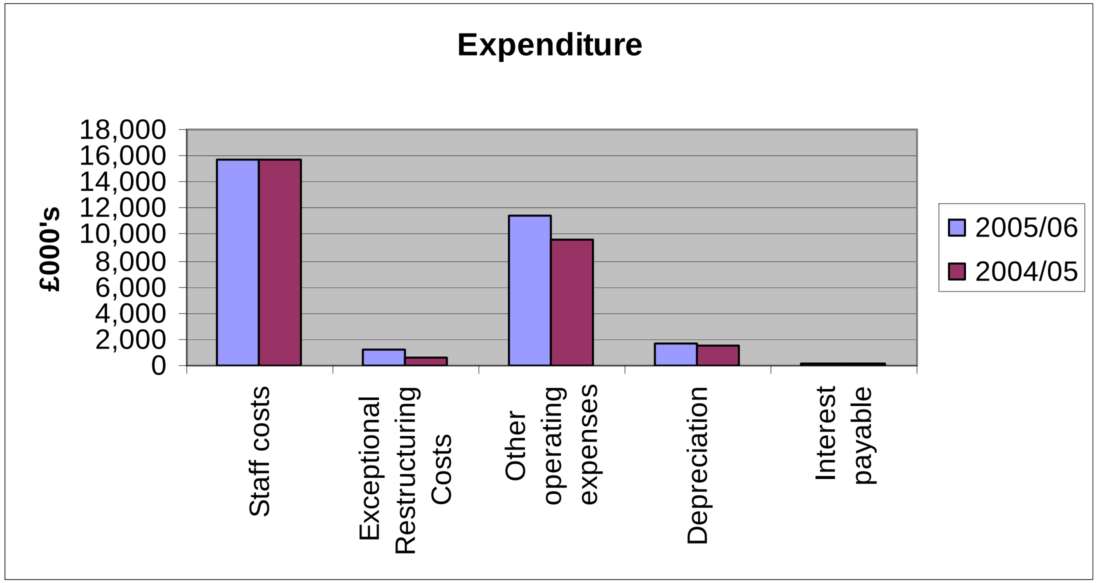
Investment income

Marginal increase in the year in line with increased bank balances held. The College continues to attract investment income on its bank balances of 6%.

Gift aid

The Gift Aid payment from the College's subsidiary company ASET has increased by £346k in the year to £623k. This is as a result of ASETs improved financial performance in 05/06.

Expenditure



Source: Audited financial statements

Staff costs

Staff costs have remained constant in the year. Despite an average annual pay increase of 4% being applied to College employees, the College has experienced a considerable fall in permanent staff numbers, resulting in relatively static staff costs in the year, although as noted later agency costs have increased.

Exceptional Restructuring Costs

Increase in the year due to increasing the College's provision for future pension costs which is affecting most employers at present. The College adjusts their provision based on actuarial valuations provided at the year end and this year the cost was £1,209k.

Other operating expenditure

Increase of approximately £2,200k in the year has resulted primarily from an increase in agency costs. The College has experienced the loss of several members of permanent staff and also has a number of staff currently off on long-term sick leave, as a result they have had to utilise the services of agency teaching staff, having a direct impact on operating expenditure.

Administration cost has increased consequently due to the College having to advertise the number of vacancies arising in the current year.

Balance Sheet

- The College's net asset value has increased from £38,035m to £40,666m in the year with a substantial strengthening of net current assets from £6,796m to £8,433m.
- The cash at bank held by the college has increased from £10,211m to £10,373m.
- Overall the Balance Sheet appears to show a reasonably stable position.