Members of the Board of Management
Angus College
Keptie Road
Arbroath
Angus
DD11 3EA

Auditor General
110 George Street
Edinburgh
EH2 4LH

December 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

Angus College

Report to those Charged with Governance

Year ended 31 July 2006

Presented to the Audit Committee on 21 November 2006

Index

Index

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 surplus of £140K on the year's operations. There were six adjustments made, which reduced the surplus in the accounts presented for audit by £34k. Two of these journals were re-classifications of creditors from accruals and deferred income to deferred capital grants, and had no effect on the surplus for the year. One of the journals corrected a mis-posting of a journal made by the College, and this also had no effect on the surplus for the year. We processed a journal to increase the bad debt provision by £13k as it was found that the provision had remained at the same level as the prior year and was inadequate when compared to the recoverability of debtors. A journal of £30k was processed to correct an error in deferred income brought forward from the prior year. This increased the surplus by £30k. The final journal of £51k was in relation to the release of deferred capital grants. This was as a result of a decision taken by the College to utilise the grant for the Saltire building and resulted in a reduction in surplus of £51k.

4. 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.

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

Issues Arising

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

7. The College has in place a general bad debt provision against its trade debtors of £7k. This is not in line with FRS 12, which stipulates that such a provision should be specific in nature. In addition to this the current provision is not deemed to be adequate in relation to the recoverability of trade debtors. The College does not have a bad debt provisioning policy in place.

8. There are a number of outstanding cheques on the bank reconciliation that are over one year old. This equates to approximately £400 and while not material should be regularly reviewed.

9. Income in the form of SFC grant funding and donations relating to the Saltire project has been treated as deferred income and accruals rather than as deferred capital grants as required by the F&HE SORP. This income totals £234k.

10. A journal relating to Commercial Income of £17k was mis-posted during the year, resulting in an overstatement of both deferred income and accrued income.

11. There are differences in the Student Support Funds between the SEFUS system and the bank and/or nominal ledger. These differences total £29k. After further investigation the differences were reconciled to within £1k.

12. The opening reserves per the nominal ledger did not agree to the closing reserves per the statutory accounts at 31 July 2005 by £11k as past audit 2004/05 journals had not all been posted to the nominal ledger.

Corporate Governance

13. 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

14. External audit placed reliance on the work of internal audit in all areas on which they reported in 2005/06. Henderson Loggie'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, 1 of the 16 internal audit recommendations followed up at that visit remained outstanding, and this was not a high priority action, the completion of which had been agreed with the College to commence at the end of the 04/05 financial year. Revised dates have been agreed with the College and progress in implementing outstanding internal audit recommendations is to be monitored.

Concluding Remarks

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

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

17. We would like to take this opportunity to convey our thanks to the Vice Principal; Finance Manager; Management Accountant, 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 Angus 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 September 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. 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 audit 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 1992 and the Accounts Direction issued by the Scottish Further 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 surplus of £140K on the year's operations. There were six adjustments made, which reduced the surplus in the accounts presented for audit by £34k. Two of these journals were re-classifications of creditors from accruals and deferred income to deferred capital grants, and had no effect on the surplus for the year. One of the journals corrected a mis-posting of a journal made by the College, and this also had no effect on the surplus for the year. We processed a journal to increase the bad debt provision by £13k as it was found that the provision had remained at the same level as the prior year and was inadequate when compared to the recoverability of debtors. A journal of £30k was processed to correct an error in deferred income brought forward from the prior year. This increased the surplus by £30k. The final journal of £51k was in relation to the release of deferred capital grants. This was not an error as this was as a result of a decision taken by the College during the audit to utilise their estates grant for the Saltire building rather than for ICT, and resulted in a reduction in surplus of £51k.

5. The surplus represents an improved position from the previous year's surplus of £19K before transfers. The improved position is due to the fact that the College has managed to increase income by 8% while expenditure has only increase by 6%, hence increasing the surplus made.

6. The balance brought forward on the income and expenditure reserve at 1 August 2005 was £2,562K. A transfer of £126K was made from the revaluation reserve in respect of depreciation on revalued assets. This represents a previous revaluation made on land and buildings. After the surplus for the year of £140k is taken into account the balance on the College income and expenditure reserve at 31 July 2006 is £2,828K.

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

8. In June 2006 the Scottish Funding Council (SFC) published a circular, 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.

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

- Designated reserve plus income & expenditure reserve as a percentage of total income was 26.6% compared to the sector average of 7.0%.
- Days cash to total expenditure of 123 compared to the sector average of 57.
- Interest cover of 5.8 compared to the sector average of 4.0.

10. Each year as part of the College's Financial Forecast Return (FFR) a financial health score is automatically calculated based on five key ratios. For 2005/06 the College's score was 92%, which indicates a 'secure' position.

Submission of Accounts

11. The accounts were submitted for audit on 16 October 2006, in line with the agreed timetable. The accounts submitted for audit were complete. 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

12. 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, Finance Manager and the Management Accountant. 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

13. As part of our grant testing we are required to review the regularity of expenditure on both revenue and capital grants. During the prior year's audit it was noted that although the College monitors the items of expenditure for which specific grant funding has been used and all returns have been made to SFC, detailed listings of expenditure were not always available for each specific grant.

Recommendation:	Records be maintained for each grant of all expenditure incurred that is funded by specific grant funding both for revenue and capital grants to be reconciled at least quarterly.
Update in 2005/06:	Detailed records of expenditure are now maintained for all grants.

14. There have been disposals made in the year, however they have not been recorded within the fixed asset register and hence they were not incorporated in the fixed asset note in the accounts

Recommendation:	All disposals should be recorded so that an accurate record is maintained of those fixed assets still in existence.
Update in 2005/06:	All disposals were found to be recorded correctly in the current year.

15. During prior periods, funds have been set aside in the designated reserve for future capital development, specifically the CALC project, which is now complete. Total funds at 31 July 2005 amounted to £943k. As part of the audit adjustments in the prior year, the designated reserve has been released to the income and expenditure account.

Recommendation:	Funds designated for specific projects should be monitored and released as each project develops.
Update in 2005/06:	There is no designated fund in this year's financial statements.

New matters arising in 2005/06

16. There is a general bad debt provision of £7k in the financial statements; this is not in line with FRS 12. The provision was also found to be insufficient due to there being no policy in place for calculating the bad debt provision. We estimate the required provision to be £20k resulting in an increase of £13k to the current provision. An adjustment was made in respect of this.

17. There are immaterial cheques on the bank reconciliation that are over one year old this may result in the bank being understated. These should be written back to creditors.

18. Income of £234k in the form of SFC grants and donations relating to the Saltire project is being treated as deferred income rather than as a deferred capital grants in line with the F&HE SORP. This was adjusted in the financial statements.

19. A journal relating to Commercial Income of £17k was mis-posted during the year, resulting in an overstatement of both deferred income and accrued income. This was adjusted in the financial statements.

20. While conducting the Student Support Funds audit it was found that there are recurrent differences (£29k) between the payments made per the SEFUS system and/or the bank statements and nominal ledger. It was initially unclear how these differences had arisen, however after further investigation the differences were reconciled to within £1k. These differences had arisen due to the fact that there are items processed through the nominal ledger that are not then processed through the SEFUS system. This did result in amendments to the Student Support Funds certificates, however had no effect on the financial statements.

21. The opening reserves per the nominal ledger did not agree to the closing reserves per the statutory accounts at 31 July 2006 by £11k as past audit 2004/05 journals had not all been posted.

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 Control

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 of improvements 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 are provided by Henderson Loggie. 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. Henderson Loggie'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
It is crucial that the Board continues to formally review their risk management procedures to assist in preparing their statement on Internal Controls and to satisfy themselves that the College continues to maintain good internal controls.	We will review your risk matrix, Board minutes and internal audit reports to comment on the information available to the Board in making its statement on Corporate Governance and Internal Control.	We reviewed the risk matrix, Board minutes and internal audit reports during the course of the audit and no major issues were noted.
Designated reserves will be a key area of audit focus as in the prior year there was no release made from designated reserves and an audit adjustment was processed to release an appropriate amount in line with related spend.	We will review the designated reserves to ensure that funds designated for specific projects are monitored and released as each capital project develops.	We reviewed the reserve movements during the course of the audit and there are no designated funds held this year.
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.	Internal control testing was carried out during the course of the audit and walkthrough testing performed on the controls in place and no major issues were noted.

7. Audit and accounting issues identified during the audit

Issue	Resolution
A general bad debts provision is maintained. The client does not have a provisioning policy in place. A more accurate debtors position would be given if a specific bad debt provision was in place. A general provision is not allowed under FRS12 nor is sufficient when compared to ageing and recoverability of debtors.	This was discussed with management and a journal for £13k was made to increase the bad debt provision to a sufficient level. It was agreed that the bad debt provision should be specific going forward.
There have been donations received and a one off grant from the SFC that relate to the Saltire which is a capital project. These have been included in deferred income and accruals rather than deferred capital grants as per the F&HE SORP.	After discussions with management a journal was made to transfer these to deferred capital grants.
It was found that a journal in relation to Commercial Income had been posted incorrectly resulting in both accrued and deferred income being overstated.	A journal was processed to correct this.

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
Monthly Reconciliations of starters and leavers to staff numbers is not carried out. Potentially an employee could be paid in error although he or she has left.	We would recommend that a monthly reconciliation is carried out to ensure that only actual employees of the college are paid.	Agreed.	Monthly reconciliations to be carried out. Responsibility: A Blyth, in conjunction with Personnel department.
No cashflow workings are prepared for the cashflow in the accounts. If an error is found in the cashflow a great deal of time is needed to find the error and re-work the cash flow statement.	We would recommend full back up for all cashflow workings in the accounts.	Agreed.	When annual accounts are prepared. Responsibility: A Blyth.
The Finance department do not write back cheques until they are over a year old. This can result in the bank balance being understated.	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.	Agreed.	Immediate. Responsibility: A Blyth.

Fact and potential consequence	Recommendations	Management response	Timing of implementation and responsibility
Timing differences of £2K appear in the bank reconciliation which relate to items which have gone through sundry and not through bank and vice versa. This should not happen as everything should be posted.	We recommend a review of the system in relation to bank to eliminate such timing differences	Agreed that remittances are more promptly pursued.	Immediate. Responsibility: A Blyth.
Purchase orders are maintained within the computer system and the authorised copies are sent to the supplier. No copies of the authorised purchase orders are maintained.	We would recommend that the purchase order maintained on the system be marked as authorised.	Under investigation.	Immediate. Responsibility: A Blyth.
There is a difference in the student support funds between the SEFUS system and the bank/nominal ledger. This difference was initially £29k, however after further investigation was reconciled to within £1k.	We would recommend that the accounting system and the student record system (SEFUS) are reconciled on a quarterly basis.	Agreed.	Immediate. Responsibility: A Blyth.
The opening reserves per the nominal ledger did not agree to the closing reserves per the statutory accounts at 31 July 2006 by £11k as past audit 2004/05 journals had not all been posted. This was corrected during the audit.	Going forward accounting staff should ensure that all year end journals are processed once the audit is complete and financial statements signed off.	Agreed.	Journals to be processed following financial statements sign off. Responsibility: A Blyth.

9. Significant accounting policies

- Retirement benefits to employees of the College are provided by the Scottish Teachers' Superannuation Scheme (Scotland) and the Tayside Superannuation Fund. 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. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method.

- Provision is made for the future cost of enhanced pensions in respect of early retirals in the year of retiral, in compliance with Statement of Standard Accounting Practice No 24 : "Accounting for Pension Costs".

- Feuhold land associated with the buildings and undeveloped feuhold land is not depreciated. Feuhold buildings are depreciated over their expected useful economic life to the College of between 10 and 50 years. Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

10. 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.

Key Issue	Audit Impact	Resolution
The college has a general bad debt provision in place.	This is not in line with FRS 12 and does not represent the debtors position accurately. The general provision initially resulted in the provision being understated by approximately £13k, however an adjustment was made to the financials to increase the provision to an adequate level.	The college should update their policies so that a specific bad debt provision is in place.

11. 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) £	Balance Sheet effect Dr/(Cr) £	Income& Expenditure effect Dr/(Cr) £	Balance Sheet effect Dr/(Cr) £	Income& Expenditure effect Dr/(Cr) £	Balance Sheet effect Dr/(Cr) £
Insufficient provision - effect on debtors - effect on I&E	 13,071	 (13,071) 				
Cheques over 1 year - effect on bank - effect on creditors				 426 (426)		
Mis-posting of commercial income - deferred income - accrued income		 17,384 (17,384)				
Transfer of capital income to deferred capital grants - deferred income/accruals - deferred capital grants		 233,989 (233,989)				
Total c/f	13,071	(13,071)				

College	Adjusted misstatements		Unadjusted Misstatements Factual		Unadjusted Misstatements Judgemental	
	Income& Expenditure effect Dr/(Cr) £	Balance Sheet effect Dr/(Cr) £	Income& Expenditure effect Dr/(Cr) £	Balance Sheet effect Dr/(Cr) £	Income& Expenditure effect Dr/(Cr) £	Balance Sheet effect Dr/(Cr) £
Total b/f	13,071	(13,071)				
Release of deferred income re prior year closing journals not processed - deferred income - income	 (30,000)	 30,000				
Total	(16,929)	16,929				

12. 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, Finance Manager and Administration, 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 for the Sector

Procurement policy

Over the next two years the FE sector is tasked to deliver £78 million savings, which in simplistic terms represents approximately £200,000 per college. 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
- Shared services and consortium working

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 LSC.

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.

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.

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

Members report

As best practice it is recommended that the college's members report should also be changed 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 36: Business Combinations*

FRED 36 sets out proposals for how the IFRS3 business Combinations could be implemented into UK accounting standards, and sets out consequential amendments to several UK accounting standards.

The amendments proposed will require all business combinations to be accounted for using the acquisition method. Merger accounting will not be permitted, which will impact on colleges accounting for mergers.

It should be noted that currently when the combination has the characteristics of an acquisition, for example a larger college acquiring the assets and liabilities of a smaller college in financial difficulty, then that combination should be accounted for as an acquisition. As there is no consideration for the acquisition a significant level of negative good will would arise when comparing cost (nil) to the fair value of assets acquired. In this situation the LSC have suggested a true and fair override over the treatment of negative goodwill.

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

(c) FRED 37 and 38: Intangible assets and impairment of assets

Intangible assets comprise an increasing proportion of the assets of many entities, including colleges. The FRED reconsiders the definition of intangible assets. They are (FRS10 Goodwill and Intangible assets) currently recognised when they are capable of being separately disposed of, without disposing of a business of the undertaking. The new proposals change the identification criterion to include the fact that the asset is *separable,* i.e. is capable of being separated or divided from the entity and sold either individually or together with a related asset or liability.

The most significant changes arising as a result of this are likely to result from the potential capitalisation of both Computer Software and Development costs (e.g. website costs).

The exposure draft FRED 38 will require the recoverable amount of an intangible asset with an indefinite useful life to be measured annually, irrespective of whether there is any indication that it may be impaired.

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

(d) 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.

Appendix B – Additional Services

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. In the year to 31 July 2006 we carried out the Student Support Funds audit. The total fees charged in relation to this service in the year to 31 July 2006 were £3,700 (excluding VAT).

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 accounts.

	Value £	I&E Effect
Write back of cheques > 1 year old	426	-
Net Income and Expenditure Effect		-

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. Disposal

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

8. Depreciation

   The rates and method of providing for depreciation and anticipated obsolescence of buildings, plant and equipment are sufficient to reduce the book amount of each asset to its residual value by the end of its probable useful life in the college's business.

Liabilities and provisions

9. With the exception of immaterial amounts for which invoices had not been received or which could not readily be determined or estimated, provision has been made in the financial statements for all known liabilities of the college at the balance sheet date including liabilities accrued but not then due.

   iv. any reports from provider assurance team
   v. any correspondence relating to recovery of funds or eligibility of provision have been made available to you.

10. We confirm that the College has no liability for any retention on the Saltire building.

11. To the best of our knowledge and belief the college has complied with the terms of the financial memorandum with the Scottish Funding Council.

12. To the best of our knowledge and belief all internal audit reports and reports from Henderson Loggie have been made available to you.

Partnerships and other relationships

13. 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.

14. Where the college has sub-contracted or franchised delivery of provision, the college has ensured that any terms and conditions attached to the associated income stream have been met by the sub-contractor/franchisee.

Income sources/initiatives

15. 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.

16. 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

17. 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.

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

Continuing operations

19. In our opinion, the college will have adequate cash resources available to finance its trading and other obligations during the course of the twelve months from the date of this letter

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 21 November 2006.

Yours faithfully

Signed on behalf of the Board of Angus College

Chairman ....…………………….............

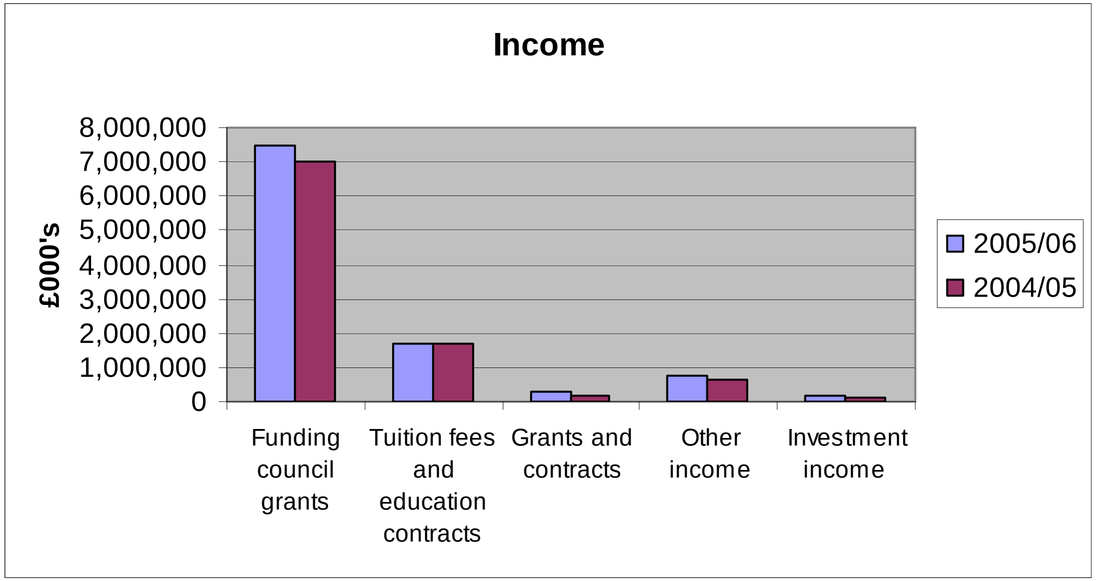
Principal ....……………..……………..

Date 21 November 2006

Appendix D – Analysis of Financial Performance

Detailed analysis of financial performance

Income



Source: Audited financial statements

Funding council grants

There has been an increase of £464k in the current year, primarily due to increases in SFC recurrent grant funding (£403k) and a one off grant in 05/06 being one-off allocation for non-recurring purposes (£157K), coupled with a decrease in area mapping funded projects of £31K.

Tuition fees and education contracts

There is a marginal increase of £22K mainly due to an increase in part time course income of £30K coupled with an increase in life long learning of £25K and a decrease in Skillseekers SED income due to Scottish Executive Tayside putting their contracts on hold as they were going through funding problems.

Other grants and contracts

Overall there has been an increase of 121K which is mainly due to the following:

- Increase in adult literacy grant (£18K)
- new vocational training fund of (21K)
- on-line applications grant (28K) released from deferred income in prior year as well as SFC Isle project (£23K).
- £30k release of deferred income in relation to fee waiver

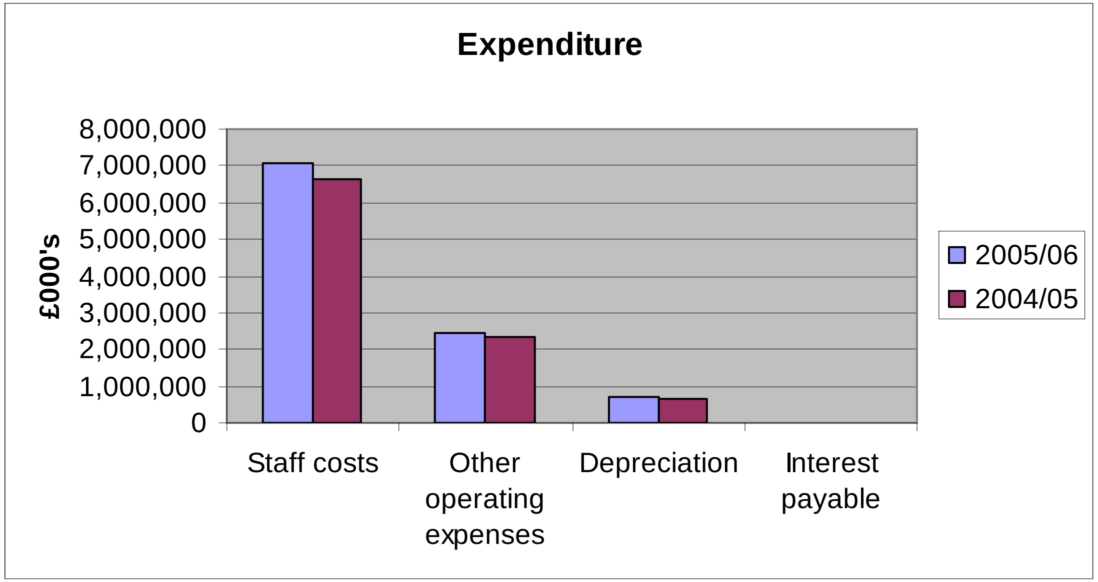
Other Income

There is an increase of £118K mainly due to an increase in the number of ESF projects from 9 to 17 compared to last year (47K), an increase in staff secondment income (30K) coupled with an increase in catering income (23K) as a result of an increase in student numbers of 635 students in the current year.

Investment income

There has been an increase of £15K from last year due to better management of funds in the current year. Funds were transferred to deposit account on a more timeous basis in the current year.

Expenditure



Source: Audited financial statements

Staff costs

Staff costs have risen by £468K in the year mainly due to an average pay increase of 4% and 8 additional employees in the current year.

Other operating expenditure

Increase of £134K primarily due to inflationary increases in water & rates charges and energy costs in line with the market. Also increase in student registration costs and canteen expenses due to an increase in student numbers.

Balance Sheet

- The College’s net asset value has increased from £14.4m to £15m in the year with a substantial strengthening of net current assets from £1,599k to £1,971k.

- The cash at bank held by the college has decreased from £260k to £62k.

- Overall the Balance Sheet appears to show a reasonably stable position.