

CARDONALD **COLLEGE**

**ANNUAL REPORT
TO THE BOARD OF MANAGEMENT AND THE AUDITOR
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR
THE YEAR ENDED 31 JULY 2006**

DECEMBER 2006

Date of commencement of Final Visit	23/10/06
Date of Draft Report to College	13/11/06
Date of Meeting re Draft Report	16/11/06
Date of College Responses	20/11/06
Date of Presentation of Report	14/12/06

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GLOSSARY OF TERMS

Annual Report	-	Report
Cardonald College	-	The College
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Further Education Funding Council	-	SFEFC
Scottish Funding Council	-	SFC
Value for Money	-	VFM

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Cardonald College with effect from 1 August 2001 for a period of 5 years until 31 July 2006.
- 1.2 The Annual Report has been prepared following the conclusion of our audit of the financial statements of Cardonald College for the year ended 31 July 2006.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in July 2001.
- 1.4 Paragraph 19 of the 'Code' states that the auditor's objectives are to:
 - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
 - Review and report on 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, and the prevention and detection of corruption
 - Its financial position, and
 - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 Our audit report on the financial statements for the year ended 31 July 2006 is unqualified.

- 1.8 The Annual Report covers the following areas as set out in the Code:
- a) Internal Controls and audit approach
 - b) Internal Audit
 - c) Corporate Governance
 - d) Value for Money
 - e) GMAP visits
 - f) Prevention and detection of fraud and irregularities
 - g) Management letter – 2005
 - h) Management letter – 2006
- 1.9 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10 Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

Wylie & Bisset

2. INTERNAL CONTROLS AND AUDIT APPROACH

- 2.1 We have reviewed in the course of our audit the key elements of the College's systems of internal financial controls including the following areas;
- a) The College's medium and short term planning processes including budgets;
 - b) The College's review of key performance indicators, financial and management accounts;
 - c) The College's controls over income and expenditure;
 - d) The College's financial controls and procedures;
 - e) The input from the Audit Committee and the Finance Committee;
 - f) The College's internal audit service.
- 2.2 In carrying out our audit work we have taken into account the following:
- a) The Code of Audit Practice issued by Audit Scotland;
 - b) The Code of Audit Practice issued by SFEFC (SFC as of 3rd Oct 2005);
 - c) Guidance issued by Audit Scotland;
 - d) Guidance issued by SFC;
 - e) The College's internal control procedures;
 - f) The College's Corporate Governance procedures;
 - g) The College's approach to Value for Money;
 - h) The financial memorandum between SFC and the College.
- 2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:
- a) Reviewing previous financial statements;
 - b) Reviewing internal audit plans and reports;
 - c) Discussions with senior management and staff at the College;
 - d) Completing appropriate audit programmes;
 - e) Carrying out analytical review procedures;
 - f) Carrying out substantive and compliance audit tests on a judgemental basis;
 - g) Reviewing the minutes of the principal College committees.
- 2.4 Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 9 & 10.
- 2.5 The audit recommendations are included in the appropriate sections of this report.
- 2.6 The recommendations have been graded as either High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

3. FINANCIAL STATEMENTS

- 3.1 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 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.
- 3.2 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 opinion.

AUDIT REPORT

- 3.3 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

- 3.4 The income and expenditure account shows an operating surplus for the year of £244k on the year's operations before the accelerated depreciation charge of £754k on the demolition of the old workshop building. The surplus represents an improved position from the previous year's surplus of £37k.
- 3.5 In 2005/06 the College budgeted for an operating surplus of £101k. The College has budgeted for a £132k operating surplus in 2006/07.
- 3.6 After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost, a historical cost surplus of £411k is shown (£204k surplus in 2004/05).
- 3.7 The balance brought forward on the income and expenditure reserve as at 1 August 2005 was £1,254k. Amounts were transferred from the revaluation reserve to the income and expenditure reserve to match the depreciation charge for the year. The balance on the income and expenditure reserve at 31 July 2006 is £1,665k.

- 3.8 In May 2006 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2004/05. The indicators show that in 2004/05 the College has a mixed financial position compared to the sector average, particularly in regard to:
- ◆ the reserves (designated reserves plus I&E reserves) were 7.4% of total income (2003/04: 6.7%), compared with a sector average of 7% (2003/04: 4.1%);
 - ◆ the liquidity ratio (current assets: current liabilities), was 1.4 (2003/04: 1.2) compared with a sector average of 1.3 (2003/04: 1.2);
 - ◆ the interest cover ratio was 2.2 (2003/04: 1.4), compared with a sector average of 4.0 (2003/04: 2.2).
- 3.9 In 2007 the SFC is due to publish comparisons of the financial performance of colleges based on 2005/06 PIs. The College is continuing to keep the inter-college comparisons produced by SFC under review.

SUBMISSION OF ACCOUNTS

- 3.10 The accounts were submitted for audit on 23rd October 2006. The accounts submitted for audit were reasonably complete. Working papers provided have generally been of a reasonable standard and queries arising from the audit have all been resolved. Key staff members were readily available for consultation throughout the audit process.

ISSUES ARISING

- 3.11 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Assistant Principal Finance & Resources. 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.
- 3.12 **Strathclyde Pension Fund (SPF):** The financial statements disclose the SPF on the basis that it is a defined contribution scheme. There is inconsistency within the sector at present as to whether the College's share of the underlying assets and liabilities can be identified on a reasonable basis. Therefore a number of Colleges have, in accordance with the dispensation given in paragraph 9 (b) of FRS 17, chosen to account for their contributions to the scheme as if it was a defined contribution scheme.
- 3.13 **SSAP 24 Provision:** The College has incorporated a provision based on an interest rate of 2.5% using the Deloitte's tables as recommended by SFC.

- 3.14 **Accounting Policies:** In accordance with FRS18 the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts
- 3.15 **Spanning SUMS:** Staff costs totalling £92k have been deferred in respect of SUMs which spanned the academic years 2005/2006 and 2006/2007.
- 3.16 **Campus Development:** During the year ended 31 July 2006, the College expended £10,254k on the new campus development. The overall costs of the project are estimated at £23 million, which is substantially covered by external funding, principally from the Scottish Funding Council and the European Regional Development Fund.
- 3.17 The College demolished the old workshop building in October 2006 as part of the new Campus Development. The accelerated depreciation charged to the Income and Expenditure Account in 2005-06 was £754k.

4. INTERNAL AUDIT

Objective and Approach

- 4.1 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 system 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.
- 4.2 The College's internal auditors for 2006 were BDO Stoy Hayward (with the exception of the SUMs and Fee Waiver Report which was prepared by Chiene & Tait).
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2006 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2006 the following internal audit reports were issued:
- a) SUMs and Fee Waiver
 - b) Cash and Treasury Management
 - c) Payroll
 - d) Purchasing
 - e) Business Continuity
 - f) Risk Management
 - g) Annual Report
- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment.
- 4.6 The Internal Audit annual report from the College's internal auditors concluded that 'Reasonable Assurance' could be taken from the internal audit work.

Opinion

- 4.7 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with the Internal Audit providers. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit. Accordingly reliance was placed on the work of Internal Audit in all areas on which they reported during 2005/06 as detailed at 4.4.

5. CORPORATE GOVERNANCE

Objective and Approach

- 5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was carried out using a bespoke checklist. We also reviewed the following:
- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2006;
 - b) The College's Corporate Governance strategy;
 - c) The minutes of meetings of key College committees issued during the year.

Opinion

- 5.2 Based on our review the College appears to operate appropriate Corporate Governance procedures and management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff.

Recommendations

- 5.3 There were no recommendations in this area last year.
- 5.4 One recommendation about Board of Management attendance has been made this year (per section 10, item 3).

6. VALUE FOR MONEY

Objective and Approach

- 6.1 We have reviewed the College's Value for Money systems including the following:
- a) The College's strategy in this area;
 - b) VFM studies carried out by the College's internal auditors.

Opinion

- 6.2 Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources.

Recommendations

- 6.3 There are no recommendations in this area.

7. GMAP VISITS

- 7.1 The College has had two GMAP visits during the year ended 31 July 2006. The visits were as follows:
- a) 30th March 2006 – to discuss anticipated results for 2005/06, the campus redevelopment project, SUMs target, benchmarking and Strategic Plan.
 - b) 15th August 2006 – which comprised a list of questions on FFR and Estates project update.
- 7.2 We understand that GMAP plan to continue to visit the College during 2006/07.
- 7.3 We recommend that any reports from future GMAP visits should be forwarded to your future external auditors in order that they can be reviewed as part of their audit work.

8. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

- 8.1 The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures.
- 8.2 An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a bespoke checklist.
- 8.3 In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
- a) The monitoring and compliance with financial procedures;
 - b) The College's strategy to prevent and detect fraud and other irregularities;
 - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 8.4 We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Opinion

- 8.5 Overall we concluded that management takes fraud prevention and detection seriously and has reliable controls in place to ensure that potential areas for fraud are detected.

Recommendations

- 8.6 There are no recommendations in this area.

9. MANAGEMENT LETTER – 2005 and prior

- 9.1 The management letter for the year ended 31 July 2005 was issued by Wylie & Bisset following the audit for the year.
- 9.2 Of the eleven recommendations set out in the management letter, two have been put in place, one has expired and eight have been re-noted and reported below.
- 9.3 There are two recommendations graded as “High” priority in this area.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
<p>1. Trade debtors Our review of trade debtors highlighted differences between the lead schedule, the sales ledger and the aged debtors listing. The differences this year of £224.42 and £242.60 (respectively) are an improvement on last years differences of £224.42 and £14,958.97.</p>	<p>We recommend that the debtors lead schedule, sales ledger and aged debtors listing be reconciled prior to the commencement of next years audit.</p>	Low	<p>This is due to a historical difference which could not be amended on the system. The College have now transferred to a new Database, which will resolve this matter although it may reoccur if the system crashes and holds part transactions. Also Database audits will be run more frequently.</p>	<p>Assistant Finance Manager/ September 2006</p>
<p>2. Bank reconciliations Through our review of bank reconciliations we noted that there is often a time delay of several months between the month end and the preparation of the bank reconciliation on the Bursary and Hardship accounts.</p>	<p>We recommend that bank reconciliations are prepared more timeously to allow early identification of any differences.</p>	Medium	<p>A month end timetable is now in place and will be monitored closely to ensure planned timescales are met although a review of finance resources is likely to be required. Also Automated Bank reconciliations are now in place.</p>	<p>Assistant Principal Resources & Assistant Finance Manager/ January 2007</p>

<p>3. Student Support Creditor</p> <p>Our work on Student Support creditors highlighted differences between the nominal ledger and the Hardship co-ordinators records.</p> <p>The difference is quantified as follows: Creditor per Accounts £136,305; Per specific bank accounts £106,933; Per Student Support Forms £103,675. The College appears to have over accrued the Student Support Creditor by £32,630.</p>	<p>We recommend that the Finance Manager and the Hardships co-ordinator meet to reconcile the Student Funding records, the bank statements and the nominal ledger accounts for each Student Support Fund. A more detailed management letter has been issued, separately, in this area.</p>	<p>High</p>	<p>Monthly meetings are being held however there is a resource issue in completing the reconciliations to the planned timescale. A review of available finance resources will be undertaken. Also it is planned that the Student Awards Officer carries out more financial reconciliation work.</p>	<p>Assistant Principal Resources & Assistant Finance Manager/ January 2007</p>
<p>4. Draft accounts</p> <p>We were not provided with a full set of draft Financial Statements until 9th November 2006, some two weeks after the commencement of the audit which has caused inefficiencies in the audit process. Although we did have a draft set of the Primary Statements and notes at the start of the audit, a number of figures had not been finalised.</p>	<p>We recommend that the College ensure that draft accounts are available at the start of the audit in accordance with the agreed timetable. This will allow an efficient and effective audit to be carried out and will enable the auditors to meet the agreed timetable.</p>	<p>Medium</p>	<p>A draft set of the accounts excluding the narrative section was supplied at the start of the audit although this did require further changes as audit progressed. The College will closely review its year end timetable and free up resources as required in August & September in future particularly of the Assistant Finance Manager.</p>	<p>Assistant Principal Resources & Assistant Finance Manager/ January 2007</p>
<p>5. Supplier Statement reconciliations</p> <p>Our work on the purchase ledger revealed that no supplier statement reconciliations had been performed at the end of July 2006. As a result, two invoices totalling £8,060.56 had not been accrued.</p>	<p>Reconciling the liability shown on the purchase ledger to the amount shown on the supplier statement is an important control over the purchase ledger. We recommend that reconciliations should be performed for all major suppliers at least quarterly and at the College year-end.</p>	<p>Medium</p>	<p>Supplier statement reconciliations are carried out every month and we have requested from the auditors information as to the required evidence to be used in future to prove these are undertaken. The supplier statement differences are being investigated.</p>	<p>Assistant Finance Manager & Purchase Ledger Staff / November 2006</p>

<p>6. Audit timetable During our audit work, we were aware of an internal audit-timetabling document, which we recognise as a positive planning tool. Unfortunately, the College had fallen behind it's internal deadlines and other items were not noted as having been completed.</p>	<p>We do note that there was improvement in the completion of this document on last year. However, work still needs to be done to consider whether internal deadlines are achievable and to put in place measures to achieve them.</p>	<p>Medium</p>	<p>The year-end timetable will be closely reviewed to ensure the dates listed are more realistic in future. Also as stated above efforts will be made to free up resources as required in August & September in future particularly of the Assistant Finance Manager. This was heavily impacted this year by a complete review of the cost centres and completion of a new finance database.</p>	<p>Assistant Principal Resources & Assistant Finance Manager/ January 2007</p>
<p>7. Trade creditors Our review of trade creditors highlighted a difference between the nominal ledger and the trade creditors listings. The difference this year is £999.58 compared to £10,426.53 last year.</p>	<p>We recommend that the trade creditors nominal is agreed to the listing in advance of next years audit.</p>	<p>Medium</p>	<p>This is due to an issue with a Dream summary creditors report which is missing a couple of items. The required amendments are being progressed.</p>	<p>Assistant Finance Manager/ January 2007</p>
<p>8. European Funds We noted during our interim audit that no detailed schedule was prepared on a monthly basis to support the European funding debtor in the monthly Management Accounts.</p>	<p>Although we note improvement this year, the finalised figure was not available to us at the start of the audit. Work to finalise the Debtor (and, therefore, income figure) was being carried out during our audit visit. To ensure the accuracy of the College's management accounts we recommend that this reconciliation is carried out each month.</p>	<p>High</p>	<p>There has been much improved communication on this during the year which has focussed on income target achievement and costs against budget. However it is agreed that a full reconciliation of all ledger accounts is required on an ongoing basis. The College will do this quarterly at least and will aim to do monthly if resources allow.</p>	<p>Assistant Principal Resources & Assistant Finance Manager/ December 2006</p>

10. MANAGEMENT LETTER – 2006

10.1 The recommendations following the audit for the year ended 31 July 2006 are set out below.

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>1. Contract Retention We noted during our audit work that the retention on the Industry Skills Centre and Tower Block refurbishment has not been accrued. Although an adjustment was made for the year end accounts, the fixed assets and creditors in the management accounts to 31 July 2006 are understated by £220k.</p>	<p>We recommend that all potential creditors are included in the Management Accounts.</p>	High	<p>Agreed. The retention amounts will be included as committed funds in the management accounts in future.</p>	<p>Assistant Finance Manager/ November 2006</p>
<p>2. Fixed Asset Additions a) During our work on Fixed Assets we noted that Interim Certificates are posted in a haphazard manner. They do not appear to be posted in date order. Some certificates have the net and vat posted separately, others are posted gross. Certificate numbers 7 and 10 were posted in total and then credited out.</p>	<p>We recommend that controls over the posting of interim certificates is tightened in future accounting periods.</p>	Medium	<p>This will be reviewed however the records were correct overall.</p>	<p>Assistant Finance Manager/ December 2006</p>
<p>b) We noticed that one item for £83,418 had a description in the nominal ledger of "Please order as per attached s..." (Nominal code 6062000607).</p>	<p>We recommend that descriptions of items are completed to assist the audit process.</p>	Medium	<p>This narrative is picked up from purchase order and a full trail is available on the finance system. No action required</p>	N/A
<p>c) We noticed that nominal account 910113 contained only one item – a cheque for £470 which had not been matched to an invoice</p>	<p>We recommend that all asset purchases and payments are matched on an ongoing basis.</p>	Medium	<p>Agreed. The specific item is being investigated and the required practice will be re-emphasised as required.</p>	<p>Assistant Finance Manager/ December 2006</p>

<p>3. Board of Management We noted that two members of the Board of Management (of which one was the Student Representative) had less than 50% attendance during the year.</p>	<p>We recommend that all members of the Board of Management are reminded of the importance of their attendance at Board Meetings.</p>	<p>Medium</p>	<p>The Board agrees that this is a concern and attendance records will be looked at when reappointment of members is considered.</p>	<p>Secretary to Board/ February 2007</p>
<p>4. Fixed Assets The College is currently undergoing a significant Estates development. This will have a significant effect on Fixed Assets and Deferred Grants.</p>	<p>We recommend that the following areas are considered prior to next years audit:</p> <ul style="list-style-type: none"> a) the split of Fixed Assets between Land & Buildings and Fixtures & Fittings. The release of the Deferred Grants in respect of these areas should also be considered. b) The College should consider having the Estates valued on completion of the Estates development to assess the carrying value of Fixed Assets. c) The Accounting Policies for Fixed Assets should be revisited to ensure the existing policies are reasonable. 	<p>Medium</p>	<p>Agreed to look at these areas during next years audit and on completion of the Estates Project.</p>	<p>Assistant Principal Resources/ Ongoing</p>
<p>5. VAT We understand that the College has not decided which VAT method to apply to the Estates development.</p>	<p>We recommend that the implications of the VAT method which is applied are considered to assess the impact on the Accounts of the College.</p>	<p>Medium</p>	<p>Will be carried out once a decision has been made on the VAT method to be applied.</p>	<p>Assistant Principal Resources/ Ongoing</p>

APPENDIX A

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

In accordance with the College's Constitution, the Board of Management of Cardonald College is responsible for the administration and management of the affairs of the College, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Constitution, the Statement of Recommended Practice : Accounting in Further and Higher Education Institutions and other relevant accounting standards. In addition within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the college will continue in operation.

The Board of Management has a responsibility to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Further and Higher Education (Scotland) Act 1992, the College's Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and hence to take reasonable steps to prevent and detect fraud;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure; and
- ensure sound corporate governance and the proper conduct of the college's operations.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any systems of internal financial control can, however, only provide reasonable, but not absolute assurance against material misstatement or loss.

Statement of disclosure to Auditors

- so far as the Board of Management is aware, there is no relevant audit information of which the College's auditors are unaware, and
- it has taken all the steps that it ought to have taken as a Board of Management to make itself aware of any relevant audit information and to establish that the college's auditors are aware of that information.

Brian McKechnie

Chairperson of the Board of Management

14 December 2006

Date

APPENDIX B

INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF CARDONALD COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND

We have audited the financial statements of Cardonald College for the year ended 31 July 2006 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Board of Management, Accountable Officer and Auditor

The Board of Management and Accountable Officer are responsible for preparing the annual report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Accountable Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We also report whether in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1st January 2006 and any other terms and conditions attached to them for the year ended 31 July 2006; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2006 and of its deficit, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

Regularity

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1st January 2006 and any other terms and conditions attached to them for the year ended 31 July 2006; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

Wylie & Bisset

Wylie & Bisset
Chartered Accountants and Registered Auditors
168 Bath Street
Glasgow G2 4TP

14 December 2006

Date