Members of the Board of Management
Clydebank College
Kilbowie Road
Clydebank
G81 2AA

Auditor General
Audit Scotland
110 George Street
Edinburgh
EH2 4LH

5th 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

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Clydebank College

Report to those Charged with Governance

Year ended 31 July 2006

Presented to the Audit Committee on 14th November 2006

BAKER TILLY

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1. Executive Summary

Audit report

1. Our responsibilities and duties as auditor are summarised in Audit Scotland's Code of Audit Practice (the Code) 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 £232,000 on the year's operations. There were various adjustments made to the financial statements during the course of the audit resulting in a decrease in the surplus for the year of £2k as shown in the accounts presented for audit and these are set out in Section 11.

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. The deficit on the College's income and expenditure account reserve at 31 July 2006 is £(2,213,000).

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

Issues Arising

7. The College had omitted to account for the retentions aspect of the new build at Queens Quay (£490k). The financial statements have been amended for this.

8. During the audit the College raised the point of a potential cut-off error issue between bank and creditors (£1.8m). After discussion it was agreed that this would be amended in the financial statements.

9. Disclosure of the College's Kilbowie Road premises was considered in relation to the requirements of FRED 32.

10. Legal fees of £80k in relation to the new build at Queens Quay were found to have been expensed in the year although they are capital in nature.

Corporate Governance

11. Audit work has confirmed that overall the College's corporate governance arrangements appear adequate and initiatives to strengthen any areas of weakness are continuing. In our opinion, the corporate governance statement included in the financial statements complies with the requirements of the SFC and the SORP and the information disclosed is not inconsistent with other information of which we are aware from our audit.

Internal Audit

12. External audit placed reliance on the work of internal audit in all areas on which they reported in 2005/06. BDO Stoy Haywards'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, 0 of the 23 internal audit recommendations followed up at the visit remained outstanding.

Concluding Remarks

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

14. The key internal control issues identified by us for action by the College arising from the audit are set out in an action plan at Section 8.

15. We would like to take this opportunity to convey our thanks to the Director of Finance and Estates, Financial Controller, Financial 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 Clydebank 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 August 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. We are required to 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. We are required to 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. We are required to 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. No specific Performance Audits were required to be carried out this year.

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

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

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

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

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

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

3. Financial Statements and Related Matters

Introduction

1. The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the Scottish Funding Council (SFC), it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.

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

Audit Report

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

Financial Performance

4. The income and expenditure account shows a surplus of £232,000 on the year's operations. There were various adjustments made to the financial statements during the course of the audit resulting in a decrease in the surplus for the year of £2k as shown in the accounts presented for audit and these are set out in Section 11.

5. The surplus in the current year represents a reduction from the previous year's surplus of £287,000. Although income has increased in the year by 8% the decline in the surplus for the year arises from the increases in staff costs (8%) and other operating expenses (10%). The increase in other operating expenses takes into account the £80k of legal fees on the New Build at Queens Quay expensed in the year and £220k of exceptional pension costs.

6. The deficit brought forward on the income and expenditure reserve at 1 August 2005 was £(2,455,000). A transfer of £10,000 was made from the capital reserve to the income and expenditure reserve in relation to excess funds which arose on the disposal of the sports ground a number of years ago. A significant amount of capital spend was made in the year (£11m) on the New Build. This was matched by grants from the SFC and ERDF. After the surplus for the year of £232,000 is taken into account the deficit on the College's income and expenditure reserve at 31 July 2006 is £(2,213,000).

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

8. In June 2006 the Scottish Funding Council (SFC) published circular SFC/36/06, 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:

- Surplus as a percentage of total income in the year.
- Days cash to total expenditure, being the time that the college could trade by utilising its bank/cash resources.
- Percentage of investment income to total income in the year.

Submission of Accounts

10. The accounts were submitted for audit on 26th September 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

11. During the course of the audit any issues which arose were resolved in discussion with, or formally reported to the Financial Controller and the Financial 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

12. It was noted that a number of policy documents had not been updated in line with the agreed timetable for review of each policy. These policies have been updated and there were no such issues noted in the current year.

New matters arising in 2005/06

13. There are no significant matters arising that need to be brought to the attention of the Board of Management, other than those highlighted in sections 7 and 8.

Points to Note in 2005/06 financial statements

14. *Pension and FRS 17:* The College participates in the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). Both schemes are defined benefit schemes with the STSS being unfunded and the SPF being funded. Due to the multiemployer nature of these schemes it is not possible to identify the shares of assets and liabilities applicable to the College hence the pension costs in the financial statements have been accounted for on a defined contribution basis as permitted by FRS 17. It should be noted that due to the deficit in the SPF, future contribution rates are likely to continue to rise and while the deficit attributable to Clydebank cannot be accurately calculated for recognition in the financial statements there is a contingent medium to long term liability.

15. *Capital Commitments:* Note 25 to the accounts discloses capital commitments of £22m. The majority of this relates to the remainder of the spend on the new Build. £17m of this has been contracted to, the remainder has been authorised by the Board but not yet contracted to.

16. *Kilbowie:* The College has appointed agents in regard to the sale of this campus and the agents are currently negotiating with a number of prospective purchasers. As at the balance sheet date these negotiations were at a very early stage. Although the College is actively seeking a buyer for the existing campus, it is not anticipated that such a sale will be completed within 12 months of the balance sheet date. Therefore the campus continues to be accounted for as a fixed asset in the current year.

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 review the College's corporate governance arrangements and consider whether the corporate governance statement in the financial statements appears consistent with the information of which we have become aware during our audit.

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 board and 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 appear adequate and initiatives to strengthen any areas of weakness 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 of which 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. Our audit 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 board and committee minutes and completion of a standard checklist. The work confirms that overall the College's fraud and corruption arrangements appear 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 BDO Stoy Hayward. 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. The internal audit report issued by BDO Stoy Hayward 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 publishes performance indicators (PIs) which assess the financial performance of Further Education colleges. Also, SFC publish student and staff performance indicators for Further Education colleges, which they use for benchmarking purposes. The College needs to keep the inter-college comparisons produced by SFC under review, to identify areas where current practices could be reviewed to further improve performance, by sharing and discussing good practice with other Colleges.

6. Audit and accounting issues identified at planning stage

Key area of audit focus	Our approach	Resolution
The effect of the new build project on the financial statements will be a major area of audit focus.	We will review in detail the costs incurred to the Balance Sheet date and ensure that these are reflected appropriately in the financial statements. We will also review the funding that has been received to date to ensure that it too is also accounted for correctly in the financial statements. We will also review the estimated spend to completion of the new build and ensure that this is satisfactorily disclosed in the financial statements as a capital commitment. Finally, we will ensure that adequate explanation is provided in the notes to the accounts in relation to the progress of the new build at the time of sign off of the accounts.	The costs incurred in the year in relation to the new build were reviewed and a sample of invoices were checked to the amounts shown within additions for the year. Grants received in relation to the new build were also tested on a sample basis. The estimated cost to completion was discussed with the client and the appropriate capital commitments note determined. Capital Costs were included in Fixed Assets under Construction apart from £80k of exceptional professional fees and legal costs which have been expensed. An adjustment was required to accrue control retention.
The treatment of the existing College campus at Kilbowie Road.	Subject to the progress in relation to the sale of the building at Kilbowie Road, the building will be treated as either a fixed or current asset. We will discuss with management progress in this area and review relevant correspondence with solicitors to ensure that the building is correctly reflected in the financial statements.	This issue was discussed with the client at length with reference to applicable Accounting Standards and UK GAAP to ensure the correct accounting treatment of the College campus within the financial statements. As it is unlikely the sale will be finalised within 12 months of the Balance Sheet date it has been fully impaired and left within fixed assets. A note detailing the current position is also included in the fixed asset note to the accounts (Note 12).

Key area of audit focus	Our approach	Resolution
The calculation of the pension provision in line with issued guidance.	Our approach will be to review your calculations and satisfy ourselves that the provision has been calculated using a factor based on appropriate guidance issued and that it appears to be a reasonable provision based on the information available.	The calculation of the pension provision and the underlying assumptions were reviewed. The provision in the financial statements appears to be reasonably stated. A factor of 2.5% has been used which has been confirmed as reasonable by SFC.
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.	A review of the Board minutes and internal audit reports was undertaken and significant matters were documented. The Board appears to be satisfying their role in relation to risk management and internal control procedures.
Unspent SFC grants will be a key area of audit focus as the College has had a high level of unspent grants over the last two financial years.	Our approach will be to discuss with management the current situation in this area and review relevant documentation and correspondence to ensure that the College has the relevant authority to continue to carry forward any unspent SFC grants, rather than repay them to SFC.	This issue was discussed with the College and the appropriate documentation from the funding bodies was reviewed to satisfy ourselves as to the Colleges ability to carry forward unspent grants for use on the College new build.

Key area of audit focus	Our approach	Resolution
The College's main financial objective is to reduce its historic deficit. As such a key area of our audit focus will be in ensuring that the College continues to be on course to achieve this objective.	We will review the results for the year in comparison to budget to ensure that the College continues to be move towards reducing the historic deficit. We will also review the budget going forward to ensure that the College continues to remain on course to reduce the deficit.	A comparison was made between the results for the year and budget and it was clear that the College is progressing towards reducing its historic deficit. A review of the 2006/07 budget showed a surplus of £215k also demonstrating that the College continues to move towards meeting its objective of decreasing its historic deficit.
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 walkthrough tests.	The major systems of the College were reviewed and documented during the course of our work. Walkthrough tests were performed to ensure that systems actually operated in the way in which they were recorded. No significant issues were identified.

7. Audit and accounting issues identified during the audit

Issue	Resolution
A large BACS payment processed prior to the year end but not cleared until after the year end was added back to the bank balance. This resulted in both the bank balance and the creditors balance in the financial statements being overstated.	This issue was raised by the client for discussion. It was subsequently agreed to process a correcting adjustment to rectify this matter.
Further discussion arose over the level of grant debtor to be recognised from ERDF and SFC and the level which was to be treated as deferred.	This was satisfactorily resolved with no adjustment to the financial statements.

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
No consideration was given for the adjustment regarding retentions resulting in both Fixed Assets and Creditors being understated.	Introduce a mechanism that prompts the finance team to account for the retention each financial year.	Agreed. All invoices will have retentions accrued for from August 2006 onwards.	August 2006. Financial Controller.
A decision was made by the Board to expense £80k of legal fees in relation to the new build at Queens Quay rather than capitalising with all the other costs of the new build. Both the surplus for the year and fixed assets are potentially understated.	We would recommend that all spend that is capital in nature is capitalised in the Balance Sheet in future years.	Noted. However the decision was taken by the FE&GP committee to take account of an overspend of £80k against current operating surpluses, thus maintaining the maximum amount of contingencies for the finalisation of the new college build programme.	N/a

BAKER TILLY

9. Significant accounting policies

Recognition of Income

Income from tuition fees is recognised in the period in which tuition is delivered and includes all fees payable by students or their sponsors.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. The main recurrent allocation from SFC, which is intended to meet recurrent costs, is credited to the income and expenditure account equally over the accounting year. Non-recurrent grants from SFC or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Bursary/EMA Funds

Such grants received from the SFC are available solely for students; the College acts only as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure account and shown separately within the notes to the accounts.

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 will be disposing of its current campus in the next 12 to 24 months as it moves to its New Build campus.	Treatment of the campus as either fixed or current asset and valuation of the campus under FRED 32.	Agreed there is insufficient certainty as to the date of sale but further detail is included in note 12 to the financial statements.

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.

Clydebank College	Adjusted misstatements		Unadjusted Misstatements Factual	
	Income& Expenditure effect Dr/(Cr) £	Balance Sheet effect Dr/(Cr) £	Income& Expenditure effect Dr/(Cr) £	Balance Sheet effect Dr/(Cr) £
Bank balance overstated by HGB BAS payment: effect on creditors effect on bank THIS PONT WAS RAISED BY THE COLLEGE		 1,793,695 (1,793,695)		
Retentions on new build omitted from accounts: effect on fixed assets effect on creditors		 490,000 490,000		
Credit balances included within trade debtors: effect on creditors effect on debtors		 3,180 (3,180)		
Difference in assets under construction cost brought forward: effect on Fixed Assets effect on I & E	 (177)	 177		

Clydebank College	Adjusted misstatements		Unadjusted Misstatements Factual	
Understatement of other debtors – CR balance incorrectly included: effect on debtors effect on creditors		 890 (890)		
Understatement of bad debt provision: effect on debtors effect on I&E	 2,132	 (2,132)		
Debit balances included within purchase ledger: effect on creditors effect on debtors		 (5,246) 5,246		
Underclaim of ESF funding: effect on debtors effect on I&E			 (4,269)	 4,269
Expensing of legal fees on new build (capital in nature): effect on fixed assets effect on I&E			 (80,000)	 80,000
Total	1,955	(1,955)	(84,269)	84,269

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

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

VAT on new building works

Colleges recognise that if they construct a building predominately for the use of grant funded students (e.g. those under 19) the construction of the building will not be subject to VAT. The position becomes more problematic the greater the business use of the new building. Business use can come in many forms, such as sales of meals to non-students, vending machines, photocopying charges and hire of premises as well as any charges to students by way of fees, even if heavily subsidised by the SFC.
However greater opportunities are now available given the Court of Session judgement in Telford College that a further education college is a public body which provides non-business education, even to fee paying students. The college needs to determine whether it has paid VAT on the construction of new buildings, or parts of buildings in recent years. If so, retrospective claims can be made for VAT relief.

Certain VAT reliefs are available as follows:
i) construction of new non-business charitable building (or parts thereof)
ii) construction of new residential buildings
iii) alterations to listed buildings providing the buildings qualify under (i) and (ii) above
iv) 5% VAT rate for the creation of some types of residential building

The College should ensure that the project is structured in the most efficient way at the initial planning stage to ensure that maximum benefit is obtained for any reliefs that maybe available.

We understand that the College obtains advice from Deloittes in this area.

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.

As part of its strategic plan, Clydebank College is planning to dispose of land and buildings at its Kilbowie road site in 2006/07. Consideration should be given to the above in finalising any sale.

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 reviewed to more closely resemble the trustees report in the Statement of Recommended Practice “Accounting and Reporting by Charities” (SORP 2005).

Financial Reporting Exposure Drafts (“FRED)

(a) Proposed Amendment to FRS 17: Retirement Benefits

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

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

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

(b) FRED 39: Amendments to FRS12

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

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

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

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

Updated Combined Code on Corporate Governance

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

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

Financial Memorandum

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

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. For the year to 31 July 2006 we provided the following additional services at a cumulative value of £ 3,170.

- Taxation service
- EMA Grant Audit

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, and we acknowledge our responsibility for the financial statements.

1. We acknowledge as members our responsibility for the financial statements. 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 members, committees of members and management held between the beginning of the accounting period and the date of this letter, have been made available to you.

2. We have not adjusted the following misstatements, which were drawn to our attention by the auditors:

	Value £	I & E Effect £
Underclaim of ESF funding	4,269	4,269
Legal fees on new build expensed	80,000	80,000
Net Income and Expenditure Effect		84,269

3. 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.

f. all retentions held in respect of the ongoing construction of the new college building.

Compliance with laws and regulations

4. 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.

Post balance sheet events

5. There have been no events 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

6. Disposals

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

7. 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.

8. Kilbowie Road Campus

   The College has appointed agents in regard to the sale of the above campus and the agents are currently negotiating with a number of prospective purchasers. As at the Balance Sheet date these negotiations were at a very early stage. Although the College is actively seeking a buyer for the existing campus, it is not anticipated that such a sale will be completed within 12 months of the balance sheet date. Therefore the campus continues to be accounted for as a fixed asset in the current year.

Charges on assets

9. Apart from those disclosed in the financial statements, all assets shown in the college's balance sheet were free from any lien, encumbrance or charge.

10. 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.

11. Adequate but not excessive provision has been made for all liabilities and all material losses expected to arise from legal action, claims, losses from forward purchase contracts and foreign currency commitments.

12. To the best of our knowledge and belief all significant correspondence with the SFC, including:

    i. consents for capital projects and/or borrowing;
    ii. college assessment of risk;
    iii. any reports from the inspectorate or the audit service; and
    iv. any correspondence relating to recovery of funds or eligibility of provision have been made available to you.

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

Internal Audit

14. To the best of our knowledge and belief all internal audit reports and reports from BDO Stoy Hayward have been made available to you.

Partnerships and other relationships

15. 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.

16. 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

17. 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.

18. 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

19. 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.

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

Continuing operations

21. 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 5th December 2006.

Yours faithfully

Signed on behalf of the board of Clydebank College

Chairman ....………………….…...........

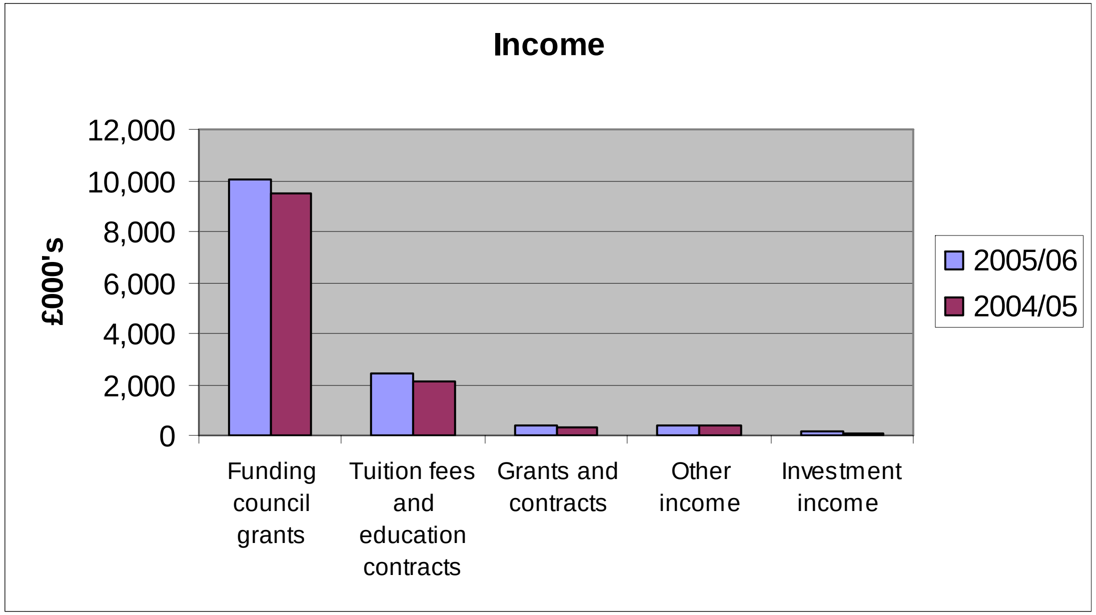
Principal ....……………..……………..

Date 5th December 2005

Appendix D – Analysis of Financial Performance

Detailed analysis of financial performance

Income



Source: Audited financial statements

Funding council grants

The current year has seen an increase in SFC grants, and in particular core grant income. Additional income in the year has also been generated as a result of the School College Partnership which offers children at school the chance to study towards a vocational qualification by attending the College within normal school hours.

Tuition fees and education contracts

The main increase in the year has occurred as a result of fee income from Non-European Union students. The College has been actively pursuing overseas students now that the Director of Commercial Services has been in place for a full year. Due to increased demand in the year it was necessary to run three Overseas Foundation courses rather than the budgeted two.

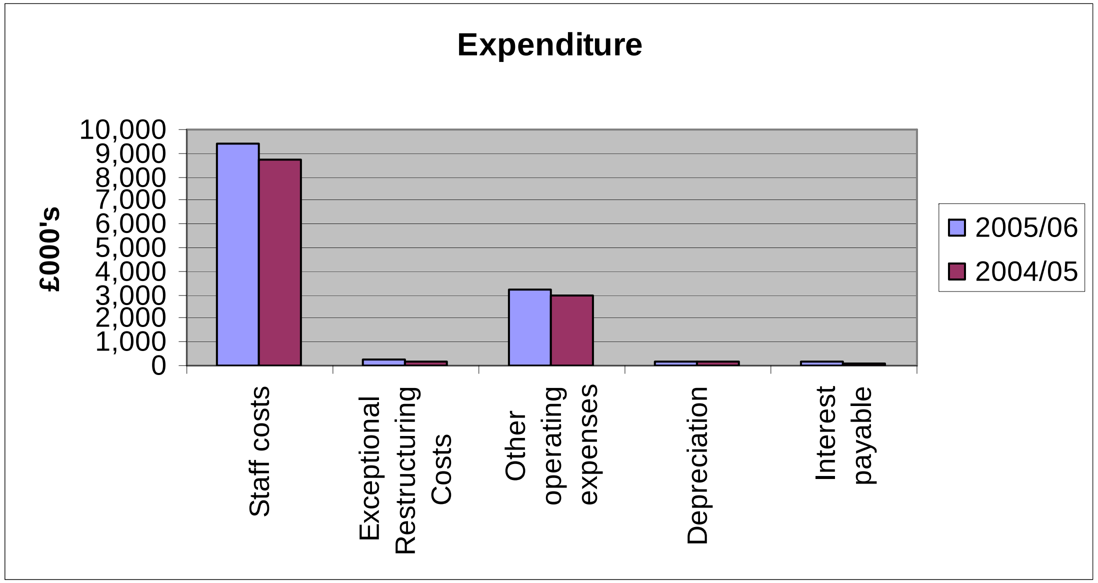
Other grants and contracts and other income

The current year has seen the full year impact of the Get Learning project which has substantially contributed to the increase in research grants and other income as shown in the financial statements. During the year there was a fall in income from the Signol project as this project was completed in the academic year 05/06.

Investment income

Interest received has risen in comparison with the prior year due to substantial cash at bank balances held in the year. This is mainly due to the fact that SFC continues to fund the College in advance of payments being made to the contractor for the new college.

Expenditure



Source: Audited financial statements

Staff costs

The increase in staff costs in the year in comparison to 2004/05 mainly relates to salary increases which were awarded throughout the year. The College also increased the number of permanent staff and reduced the number of temporary staff employed. During the year a number of additional staff members were also employed, partly due to the School College Partnership.

Exceptional Staffing Costs

The increase in the pension provision is a result of the College's requirement to use the SFC rate of 2.5% (as opposed to the prior year SFC rate of 3%).

Other operating expenditure

Has increased by £271k. This increase is generally in line with the increase in activity however notably there has been an increase of £50k in relation to premises costs which relates mainly to increased Gas and Electricity prices, and there was an additional £37k incurred in the year on Marketing and Publicity in relation to the New Build. There have been a number of small increase in various types of cost like IT support and increases can be seen in costs relating to Commercial and ESF activity in line with the increase in income. The increase in other operating expenses also takes into account the £80k of legal fees on the New Build at Queens Quay expensed in the year and £220k of exceptional pension costs. There have been some cost savings made in the year mainly on repairs and maintenance as the College prepares to move to a new Campus and on HR costs and job advertising as there were fewer vacancies compared to last year.

Balance Sheet

- The College's net asset value has increased from £(1.1)m to £9.1m in the year. The College is in a net current asset position at the year end of £190k as opposed to net current liabilities of (£230k) last year.

- The cash at bank held by the College has increased from £2.2m to £3.8m.

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