Members of the Board of Management
Dundee College
Kingsway Campus
Dundee
DD3 8LE

Dear Board of Management

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.

Dundee College

Report to those charged with Governance

Year ended 31 July 2006

Presented to the Audit Committee on 14 November 2006

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

1. Executive Summary

Audit report

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

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

Financial Performance

3. The income and expenditure account shows a surplus of £919k on the year's operations. There were no adjustments made to the surplus in the accounts presented for audit.

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. After adjusting for the difference between the actual depreciation charge for the year and depreciation based on historical cost and the realisation of a previous year's revaluation gain, a historical cost surplus of £1,391k is shown. The balance on the College reserves at 31 July 2006 is £23,978k.

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

Issues Arising

7. There is a significant provision of £213k for potential claw back of European grant income this is due to a change in criteria which may result in there having been an overpayment.

8. The Scottish Funding Council require Dundee College to confirm the balances held by them in the bursary, childcare and hardship funds. The funds held by the College are £94k higher than the amount according to SFC's records.

9. Gardyne Road was purchased on 1 August 2006 and has and has been disclosed as a Post Balance Sheet event. The existing campuses have not been transferred to current assets as they have not been put up for sale at the year end.

10. The pension valuation requested by the College had not been carried out on the correct basis; a replacement was requested by the College.

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, 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. 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, 7 of the 17 internal audit recommendations followed up at that visit remained outstanding the completion of which had been agreed with the College. Revised dates have now been agreed with the College and progress in implementing outstanding internal audit recommendations is to be monitored.

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 Assistant Principal and Director of Finance, Finance Managers 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 Dundee 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.

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. 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. There were no additional services provided to the College in the year by Baker Tilly.

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 Education 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 £919k on the year's operations. There were no adjustments made therefore there was no effect on the surplus in the accounts presented for audit.

5. The surplus represents an improved position from the previous year's surplus of £462k. The improved position is due to the fact that the College has managed to increase income (9%) while expenditure has only increased by 8%, hence increasing the surplus made.

6. After adjusting for the difference between the actual depreciation charge for the year, which is based on the revalued assets, and depreciation based on historical cost and the realisation of a previous years revaluation gain, a consolidated historical cost surplus of £1,391k is shown (£934k in 2004/05).

7. The balance brought forward on the income and expenditure reserve at 1 August 2005 was a £3,894k. A transfer of £472k was made from the revaluation and designated reserves to the income and expenditure reserve in relation to depreciation. This represents the release of the previous revaluation made on these assets over their useful life. After the surplus for the year of £919k is taken into account the balance on the College income and expenditure reserve at 31 July 2006 is £5,285k.

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

10. In June 2006 the Scottish Further Education 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.

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

- Operating surplus percentage of total income was 2% compared to the sector average of 1%;
- Designated reserve plus income & expenditure reserve as a percentage of total income was 16% compared to the sector average of 7%;
- Historical cost surplus as a percentage of total income was 4% compared to the sector average of 3%;
- Current assets over current liabilities of 2.5 compared to the sector average of 1.3;
- Interest cover of nil as Dundee College has no interest payable, compared to the sector average of 4; and
- Days' cash to total expenditure of 126 compared to a sector average of 57.

Submission of Accounts

12. The accounts were submitted for audit on 19 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

13. During the course of the audit a number of minor issues arose which were resolved in discussion with, or formally reported to the Assistant Principal and Director of Finance, Finance Managers, and other College staff. 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

14. During the 2004/05 a house was sold under the right to buy scheme. It was noted that the proceeds from the sale of the house was recognised as the full gain without taking into consideration the original cost or depreciation on the house. It was noted that the cost of the building would originally have been part of the overall cost of the land and buildings acquired and the original cost may be hard to distinguish and is unlikely to be material to these accounts. However, the cost within the accounts will be overstated as will the accumulated depreciation.

Recommendation:	The College should attempt to distinguish the split and remove the cost and depreciation from the accounts.
Update in 2005/06:	No similar transactions occurred during 2005/06.

15. It was noted during the course of the audit in 2004/05 that there was no timetable in place detailing the various SFC deadlines for returns. Therefore there was a concern that the returns may not be sent to the funding council in a timely manner.

Recommendation:	A central timetable is controlled by finance to ensure that returns are sent to SFC on time.
Update in 2005/06:	Finance now maintain a spreadsheet with deadlines for the SFC.

16. During our review of outstanding items on the bank reconciliations, it was noted that there were cheques over 6 months old totalling £1,600.The bank balance being shown within the financial statements is misstated by the value of these balances. Although the cheques were written back after 7 months and the amount involved were immaterial, we would recommend that this is carried out at 6 months when the cheque are no longer legal tender. At the year end for 05/06 there were no cheques over 6 months old.

Recommendation:	Cheques should be written back after 6 months.
Update in 2005/06:	At the year end there were no cheques over 6 months old.

New matters arising in 2005/06

17. During walk through tests it was noted that the financial procedures need to be updated for current practice.

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 on 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 of 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 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 publishes performance indicators (PIs) which assess the financial performance of further education Colleges. Also, SFC publishes 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
At the planning stage we were made aware that there may be a potential provision for repayment of ESF funding.	We will investigate the potential for any repayment of ESF grant including any correspondence received to determine the extent of any provision or contingent liability disclosed.	The provision was reviewed and found to be reasonable.
The proposed move to the Gardyne Road development will remain an issue of audit focus particularly in relation to financing of the project, implications of rising cost of the development and the potential impairment implications for the current College properties.	We will review the funding plans for the new development to ensure the College has adequate finance or plans for obtaining finance for the development. We will also look at any plans the College has made to mitigate construction industry inflation in light of the '2012' factor. Finally we will review the consequences of the potential requirement to reduce the College's property value in future financial statements due to the intention to sell these properties.	Gardyne Road was purchased post year end and this was disclosed in the financial statements as a post balance sheet event. The impairment of the campuses that are to be sold were considered but at the moment there is no commitment to sell and the College continues to make an increased surplus, therefore no impairment was required in 2005/06 nor was there a requirement for a transfer to current assets.
Calculation of the pension provision in line with SFC guidance.	Our approach will be to review your calculations and satisfy ourselves that the provision has been calculated using a factor based on guidance issued by SFC and that it appears a reasonable provision based on information available.	The factor used was the factor approved by the SFC guidance. An actuarial FRS 12 valuation highlighted potential under funding of £386k. The College have incorporated the valuation within the financial statements and increased the pension provision by £386k.

Key area of audit focus	Our approach	Resolution
We are aware the College has potential succession issues with retirement of the Principal and Audit Committee Chair.	We will review any succession plans the College has to cope with the loss of these key individuals. The demonstration of a coherent success plan will impact on our assessment of going concern risk.	While there is no current documented succession plan, this issue has been covered in several of the Principal's own green-papers issued to all staff. This issue was also discussed at the last Board meeting.
The risk of changes to the learning environment and the increasing popularity of distance-learning leading to a loss of student numbers to the College.	Within our standard going concern procedures we will review the longer term funding plans in addition the budget for the forthcoming year.	Going concern was reviewed and no current issues with future viability or the adequacy of forecasting was identified.
The future decrease in European funding in the sector.	We will review the College's plans to replace this income in the face of the future loss of this income.	At this time the College is still receiving European funding, there is not an over reliance which would impact short term future viability but the need to include a provision of £213k due to changes in grant criteria indicates the issues which may arise in this area in the future.
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.	The key controls were reviewed and there were no major issues. See Internal Control Issues for minor points on controls.

7. Audit and accounting issues identified during the audit

Issue	Resolution
During the year the Scottish Funding Council required to Dundee to confirm the balances held by them in the bursary, childcare and hardship funds. The funds held by the College are £94k higher than the amount according to SFC's records.	The potential reasons for why these differences have arisen have been discussed with College management and we are satisfied that the College's fund balances are reasonable.
There is a significant provision of £213k for potential claw back of European grant income. This is due to a change in criteria which may result in there having been an overpayment. This was treated as a debtor provision and set off against the debtor balance. As the possible claw-back will be out of funds already spent the provision may have to be a separate creditor balance.	Following discussions with College management it has been agreed that the wording of the College's income recognition policy be changed to reflect the set-off of this provision against the debtor balance.

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
During the compliance testing it was noted that one invoice had not had a second approval from the executive committee.	As the procedure states that all invoices over £1,000 should be approved by the executive committee this should be carried out on every invoice.	It should be noted that the invoice was for statutory water charges; however the procedure will be enforced in every instance.	Immediate – Finance Managers
The sales invoice request procedure is out of date. The procedure states that the pink copy of the invoice should be initialled to evidence that the invoice has been checked to the invoice request form. Walkthrough tests indicated this was not the control in place.	The actual procedure that is in place is that the sales invoices are raised by a member of the finance team who attaches the invoice to the invoice request. The procedure should be updated to reflect this change.	The current procedure will be enforced.	Immediate – Finance Managers
The computerised check payment procedure stated that the aged creditor list is initialled to evidence the listing is correct. This had not been filed and therefore could not be evidenced as carried out in the walkthrough tests.	The procedures should be followed at all times to maintain a strong control environment. The listing should be printed, initialled and filed as per the procedures.	The 'General Payments: Report Only' is signed by the Accounts Clerk, and the procedure will be updated to reflect this.	All procedures to be updated during the 2006/07 financial year- Finance Managers

Fact and potential consequence	Recommendations	Management response	Timing of implementation and responsibility
The sales credit note procedure is out of date. The procedure states that these should be approved by the Assistant Principal (Finance) and that the pink copy is initialled as evidence that they have been agreed to the sales credit note request. Walkthrough tests indicated this was not the control in place.	The actual procedure that is in place is that the credit notes are approved by the appropriate line manager and the reason for the request is stated on the form. The procedure should be updated to reflect this change.	Accepted – procedure will be updated to reflect approval by the Budget Holder.	All procedures to be updated during the 2006/07 financial year- Finance Managers
The bad debt procedure is out of date. The procedure states the Chief Executive should sign the listing of irrecoverable balances and bad debts over £1,000 should be approved by the finance committee and the chief accountant is then to ensure the debts are written off the system. Walkthrough tests indicated this was not the control in place.	The actual procedure in place is that the Assistant Principal approves all bad debt write offs. The procedure should be updated to reflect this.	Accepted.	All procedures to be updated during the 2006/07 financial year- Finance Managers
The sales administration office procedure states that cash is counted by 2 administrative assistants. This was not the case as this only occurs if a difference arises. To avoid the possibility of misappropriation cash should be counted by 2 administrative assistants.	While we have no doubt over the honesty and integrity of any of the staff involved to avoid the possibility of misappropriation, or error cash should be counted by 2 administrative assistants or counts should be subject to periodic spot checks.	Not accepted – cash-takings are now substantially lower than when the procedure was originally introduced and, consequently, the risk of material misappropriation is reduced. Given this, and practical constraints, the procedure will be amended to reflect actual practice.	All procedures to be updated during the 2006/07 financial year- Finance Managers
The procedure for petty cash is out of date as the current limit is higher than that stated in the procedures.	The procedures should be updated for the current limit for petty cash.	Accepted.	All procedures to be updated during the 2006/07 financial year- Finance Managers

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.

Advances received in respect of European Structural Fund projects, along with any relevant provisions against non-payment of claims or claw-back of claims paid, are offset against the total European funding debtor in the Balance Sheet.

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.

College/subsidiary	Key Issue	Audit Impact	Resolution
Dundee College	The College has a significant provision of £213k relating to ESF income. The criteria for the funding has been changed which may result in the College paying back funds.	The adequacy, accuracy and correct disclosure of the provision was considered during the audit. There is some merit in treating a proportion as a deduction in debtors and some as a creditor.	Following discussions with College management it has been agreed that the wording of the College's income recognition policy be changed to reflect the set-off of this provision against the debtor balance.

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) £
ESF provision understated						
- effect on debtors	-	-	-	(2,441)	-	-
- effect on I&E	-	-	2,441	-	-	-
Prepayment for training not recognised						
- effect on debtors	-	-	-	1,250	-	-
- effect on I&E	-	-	(1,250)	-	-	-
ESF claim not included in income						
- effect on debtors	-	-	-	20,384	-	-
- effect on I&E	-	-	(20,384)	-	-	-
Total	-	-	19,193	19,193	-	-

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 Assistant Principal and Director of Finance, Finance Managers and other College staff with whom the audit team has had contact, for their courteous and helpful co-operation.

Baker Tilly
November 2006

Appendix A – Emerging issues

Emerging issues

Procurement policy

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

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

VAT on new building works

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

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

The College undertook building works in respect of refurbishment of the Kingsway Campus, including the refurbishment of the refectory in 2005/06. There have been two claims submitted to the HMRC and these are now being reviewed in light of the Telford College case. The College needs to ensure that any VAT that may fall due in respect of these projects is correctly treated.

The College is to embark on a new property development in 2006/07 as a new campus has been purchased at Gardyne Road.

Certain VAT reliefs are available as follows:

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

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

Land disposals

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

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 plc's 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 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 provided VAT services to the College. The total fees charged in relation to these services in the year to 31 July 2006 were £2,300 (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 members of the Board of Management 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 the Board of Management, committees of board members 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 either drawn to our attention by the auditors, or highlighted to the auditors during the audit process, because they are immaterial to the financial statements as a whole:

	Value	I & E Effect
	£	**£**
Under provision of ESF debtor as provision rounded	2,441	(2,441)
Prepayment for training	1,250	1,250
ESF claim not included in income	20,384	20,384
Net effect on surplus - increase		**19,193**

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.

7. 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

8. 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.

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 27 November 2006.

Yours faithfully

Signed on behalf of the board of Dundee College

Chairman ....…………………..............

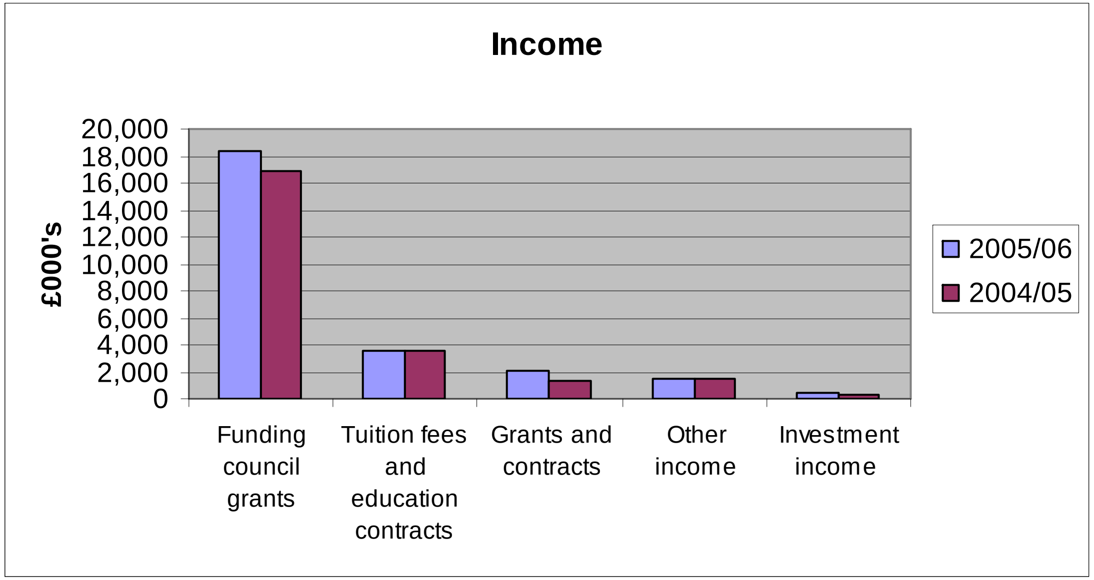
Principal ....……………..……………..

Date: ………………2006.

Appendix D – Analysis of Financial Performance

Detailed analysis of financial performance

Income



Source: Audited financial statements

Funding council grants

There has been a £1.4m increase in the funding council grants in the year. This was mainly due to a £907k increase in the recurrent grant as awarded by the Scottish Funding Council. There has been an increase in the financial security grant of £178k as this was used to fund the exceptional staff restructuring costs that occurred this year that did not occur last year.

Tuition fees and education contracts

No material increase in tuition fee or education contract income.

Other grants and contracts

There has been an increase of £670k in other grants and contract income in the year. This was mainly due to the College continuing to increase the number of projects funded by European income

Other income

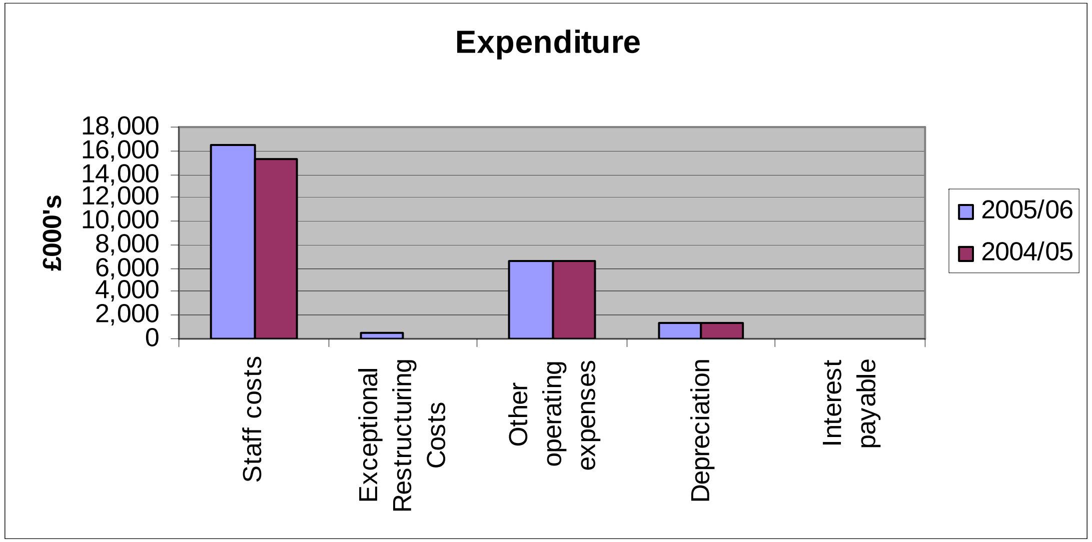
There has been no material movement in other income year on year.

Investment income

There has been an increase of £100k in the year. This has resulted from the increased cash balance held in the deposit account throughout the year.

BAKER TILLY

Expenditure



Source: Audited financial statements

Staff costs

Increased staff costs of £1.1m for the year. The majority of this increase was caused by an average pay rise of 19.5% for part time teaching staff as a result of a revised pay-settlement.

Exceptional Restructuring Cost

The restructuring costs relate to an increase in the pension provision of £386k as a result of the actuarial valuation at 31 July 2006. The remaining £146k relates to the early retirement of a member of staff. This was a mutual agreement between the College and the employee.

Other operating expenditure

This category of costs has remained consistent with the previous period. No material movement.

Balance Sheet

- The College's net asset value has increased from £28.55m to £29.53m in the year with a substantial strengthening of net current assets from £5.13m to £5.94m.
- The cash at bank held by the College has increased from £7.99m to £9.72m.
- Overall the Balance Sheet continues to show a very strong position.

BAKER TILLY