SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Edinburgh's Telford College

Annual Report to the Board of Management and the Auditor General for Scotland

2005/06

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1 Summary and Conclusion

Financial statements ***Section 3***	• We have issued an unqualified audit opinion on the truth and fairness of the annual accounts and on the regularity of transactions. • The draft financial statements submitted for audit contained a number of material errors. We experienced difficulties agreeing adjustments with the College and finalising the financial statements. All adjustments have now been agreed and the financial statements will be signed and submitted to the Scottish Funding Council (SFC) prior to the 31 December deadline. • The annual accounts of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice on Accounting for Further and Higher Education. • The College completed construction of its new campus in May 2006. The total capitalised costs of the new campus were £68,776,000. • This is the first year in which the College has been required to show the deficit within the Lothian Pension Fund on its balance sheet. The College's pension liability as at 31 July 2006 was £3,754,000. This has resulted in an accumulated deficit of £1,993,000 on the income and expenditure account.
Corporate governance ***Section 4***	• We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively. • The College's Corporate Governance Statement confirms that the College has been fully compliant with the principles of the Combined Code on Corporate Governance during 2005/06. • The College is continuing to update its Financial Procedures for changes to financial systems and staff.
Conclusion	This report concludes the 2005/06 audit of Edinburgh's Telford College, which we have performed in accordance with the Code of Audit Practice and Statement of Responsibilities issued by Audit Scotland. The report has been discussed and agreed with the Assistant Principal – Finance & Resources and the Principal and has been prepared for the sole use of the College, the Auditor General for Scotland and Audit Scotland. We would like to thank all members of College management and staff who have been involved in our work for their co-operation and assistance during our audit. ***Scott-Moncrieff*** ***28 November 2006***

2 Introduction

2.1 Audit framework

The Auditor General for Scotland is the Scottish Parliament's watchdog for ensuring propriety and value for money in the use of public funds. The Auditor General is therefore responsible for appointing auditors to Further Education colleges and for setting the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The purpose of this report is to summarise the results of our audit work for 2005/06. The report describes the ways in which the requirements of the Statement of Responsibilities and the Code of Audit Practice have been met by both the College and ourselves.

2.2 Responsibilities of the College

The College is accountable to the public for the conduct of public business and the stewardship of funds under its control. The College is therefore responsible for:

- establishing proper corporate governance arrangements;
- maintaining proper accounting records;
- preparing the financial statements;
- safeguarding assets;
- taking reasonable steps for the prevention and detection of fraud and other irregularities;
- managing its affairs to secure the economic, efficient and effective use of resources.

2.3 Responsibilities of auditors

Our responsibilities, which are significantly greater than those of auditors in the private sector, are derived from statute and from the Code of Audit Practice.

Our role is to carry out an independent and objective appraisal of the discharge by management of its stewardship responsibilities and in particular:

- to provide an opinion on the financial statements and regularity of transactions;
- to review and report on the corporate governance arrangements relating to the prevention and detection of fraud and corruption;
- to review and report on the corporate governance arrangements relating to standards of conduct, accountability and openness;
- to review and report on the corporate governance arrangements relating to the organisation's financial position;
- to review and report on the corporate governance arrangements relating to the organisation's review of its systems of internal control;
- to review and report on the organisation's arrangements for managing its performance economically, efficiently and effectively.

3 Financial Statements

STATEMENT OF RESPONSIBILITIES

It is the responsibility of the audited body and its management to:

- act within the law and ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records;
- prepare financial statements timeously which give a true and fair view of the financial position of the body and its expenditure and income.

The auditor is required to audit the financial statements in accordance with International Standards on Auditing and to give an opinion on:

- whether they give a true and fair view or present fairly the financial position of the audited body and its expenditure and income for the period;
- whether they have been prepared in accordance with relevant legislation and applicable accounting standards;
- on the regularity of the expenditure and receipts.

3.1 Accounts Direction

The College was required, in preparing its annual accounts, to comply with directions given by the Scottish Funding Council (SFC). We are pleased to confirm that the College's annual accounts for 2005/06 comply fully with the Accounts Direction issued by SFC.

3.2 Statement of Recommended Practice (SORP)

The purpose of the SORP on Accounting for Further and Higher Education is to ensure that the financial statements of institutions are prepared on a comparable and consistent basis.

The SORP takes account of best accounting practice, the requirements of the Funding Councils, the accounting provisions of the Companies Act and other relevant legislation. We are pleased to report that the 2005/06 annual accounts of the College comply with the SORP in all material respects.

3.3 Annual accounts and audit timetable

We experienced a number of difficulties completing our 2005/06 audit. We did not receive draft accounts and working papers on 25 September 2006 as agreed. The initial draft financial statements we received at the end of our first week were incomplete and contained a number of material errors.

In our opinion that these errors occurred because those charged with preparing the financial statements had limited knowledge of the College's operations.

The College's Finance Manager left during the year. The College appointed a temporary Finance Manager as well as contracting the assistance of Henderson Logie to prepare the financial statements.

Although, the College's staff were helpful throughout the audit, we had difficulties agreeing adjustments and obtaining all the necessary information and explanations to complete the audit. This was principally due to changes in the staff and the finance system.

We had to spend a significant amount of time with the finance staff to correct the financial statements. In particular, we had to provide substantial input into:

- the FRS 17 accounting entries and disclosures, and
- cash flow statements

All adjustments have now been agreed and the financial statements updated. The College has passed the financial statements to the Board for approval.

The deadline for submission to the SFC of FE college audited annual accounts is 31 December 2006. We expect the College will meet this deadline.

3.4 Auditors' report – unqualified opinion

We are required to give an opinion as to whether the accounts present a true and fair view of the financial position of the College at 31 July 2006 and of its income and expenditure for the financial year.

We are also required to include a regularity assertion in our audit report stating that expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with SFC.

We have issued an unqualified audit opinion on the truth and fairness of the accounts and on the regularity of transactions.

3.5 Review of accounting systems

One of the objectives of our audit was to review the accounting systems and internal controls operating at the College to ensure they formed an adequate basis for the preparation of the financial statements.

As noted below, we identified a number of issues with the College's accounting for VAT. With this exception, we identified no significant control weaknesses during our audit of accounting systems. In general, the College's systems of internal control appear to be adequate, well designed and operating effectively.

Exchequer financial ledger system

The College replaced its old Sun ledger system with Exchequer on 1 August 2005. The College was able to demonstrate that all balances had been transferred to the new system satisfactorily. The Exchequer system appears to be operating effectively.

VAT Procedures

We reviewed the College's VAT procedures as part of our audit and noted the following weaknesses:

- The College has placed reliance on its VAT advisors to calculate the amounts to be recovered under the 'Lennartz' mechanism (see section 3.8). During our audit, the College could not provide calculations to support the amounts recovered to date.
- The College agreed a partial exemption special method (PESM) with HMRC in March 2005, to be effective from 1 May 1999. However, the College has continued to calculate its annual adjustment based on the previous PESM.
- Staff involved in the preparation of VAT returns did not fully understand the VAT liability of the various income sources and the impact of the various income sources on VAT recovery.

We have made recommendations in the action plan to address these issues.

Documented Financial Procedures

Following changes in financial systems as well as staff, the College identified a need to update its financial procedures. The College has updated some of its procedures during the year and is continuing with the work to update the remaining procedures.

3.6 New campus project

Construction work on the College's new campus was completed on 31 May 2006. The College moved its operations during July 2006 and the new campus was officially opened on 15 September 2006.

New campus costs

The total capitalised costs of the new campus, including equipment, as reported in note 13 were:

	£'000s
Total fixed asset per note 13 to the accounts	70,070
Less fully written down assets brought forward	(1,294)
Total cost of new campus as at 31 July 2006	**68,776**

The above costs include a deduction of £6.6 million for the amounts recovered under the Lennartz mechanism (see section 3.8). The College's forecasts of new campus costs have reported the costs gross and have reported the VAT recovered as income.

Although the new College building was completed during the year, work was still outstanding on the car park. This was reflected as a capital commitment of £828,000 in note 30 to the accounts.

The expected cost to complete shown in the accounts is:

	£'000s
New campus costs	68,776
Capital commitments	828
VAT recovered	6,622
	76,226

As shown below this was significantly higher than the College original business case in August 2002:

	£'000s
Initial forecast costs – August 2002	61,475
Revised forecast costs – September 2005	73,750
Costs and commitments per accounts	76,226
Revised forecast costs – November 2006	76,515

The increased cost of the campus, which was offset by increases in the available funding, has been consistently reported to the College's Finance and Property Committee. The amounts reported in the financial statements is in line with the College's latest forecast.

New campus funding

The College had always planned to fund the new campus through a mix of SFC grants, land sale proceeds and a bank loan.

The College's original business case in August 2002 anticipated the College requiring a bank loan of £16.475 million. Despite the increase in costs noted above, the College's reliance on bank support has not been as much as expected with the College's overdraft at 31 July 2006 being £13.137 million. This reduced need for bank support is due to the College receiving better than expected SFC grants and land sale receipts.

Capital grants

The College has received £22.638 million in SFC capital grants. These have been recognised as deferred capital grants in note 19 to the accounts. The grants will be released as income over the life of the asset.

£96,000 has been released as income in 2005/06, to reflect first 3 month's use of the new campus.

Restricted reserves

The College transferred its land sale proceeds of £31,350,000 from the income and expenditure reserve to a restricted reserve in 2004/05. Similarly to the capital grants, the restricted reserve will be written down over the life of the new campus. However, the restricted reserve is transferred directly to the income and expenditure reserve every year whereas the capital grants are recognised as income.

£128,000 was transferred from the restricted reserve to the income and expenditure reserve in 2005/06. This is shown in the movement in general reserves note following the income and expenditure account.

3.7 Net current liabilities

The group balance sheet shows net current liabilities of £9.3 million as at 31 July 2006. The net current liabilities have arisen due to the College's overdraft. As reported above, the overdraft was used to fund the costs of the new campus. The College intends to convert this overdraft into a loan in 2006/07.

3.8 VAT on new campus

'Lennartz' Mechanism

The College has successfully applied to HMRC to apply the 'Lennartz' mechanism to elements of the input VAT on the new campus. The 'Lennartz' mechanism allows the College to recover an agreed level of input VAT on new campus costs. The College will then incur a VAT charge on the non-business use of the campus over its useful economic life.

VAT recovery

The College has recovered approximately £6.6 million to date under this mechanism. The amounts recovered were based on the College's initial calculations of non-business use as 67%. The College's VAT advisors are currently reviewing the calculation of non-business use and expect to submit updated VAT returns. The College expects the non-business use percentage to increase which will result in a further recovery of VAT. This is explained in note 35 of the financial statements.

VAT charge on non-business use

The College will be liable to a quarterly VAT charge over the life of the new campus. HMRC have deemed the life to be 20 years.

The quarterly VAT charge is calculated by applying the percentage of non-business use of the asset in the quarter to relevant proportion of the total VAT recovered under the 'Lennartz' principle. As the charge is dependant on the non-business use of the College in any quarter, the total VAT charge over the life of the asset could be greater or less than the initial VAT recovered.

3.9 FRS 17 – Retirement Benefits

Financial Reporting Standard 17 – Retirement Benefits (FRS 17) has been implemented in preparation of the financial statements for the year ended 31 July 2006. The implementation of this standard resulted in the College's share of the Lothian Pension Fund's (LPF) net assets or liabilities being shown on the balance sheet for the first time.

As shown in note 27, the retirement benefits to the College's employees and former employees are provided by either the Scottish Public Pensions Agency (SPPA) or the LPF. Both schemes are defined benefit schemes.

Note 27 shows that the College's pension liability is made up of:

	£'000
LPF – Net deficit	3,754
SPPA – Unfunded liabilities	2,132
Total pension liability	**5,886**

The College's actuaries were able to separately identify the College's share of assets and liabilities in the LPF scheme and this has been included in the College's accounts.

With the exception of liabilities arising from early retirements, the College is unable to separately identify its share of assets and liabilities in the SPPA scheme. The College has applied the concession allowed by FRS 17 and has accounted for the SPPA scheme as a defined contribution scheme.

The College is able to identify its liabilities in the SPPA scheme arising from the College's previous decision to allow early retirement and early access to retirement benefits. These liabilities have been included in the College's pension liability.

The implementation of FRS 17 resulted in a prior period adjustment to the 2005 figures to incorporate the pension liability and pension reserve. The effect of this is shown in note 28.

4 Corporate Governance

STATEMENT OF RESPONSIBILITIES

The audited body has a responsibility to:

- Develop and implement systems of internal control and at least annually to conduct a review of the effectiveness of the internal control systems.
- Establish arrangements to prevent and detect fraud and irregularity.
- Ensure its affairs are managed in accordance with proper standards of conduct.
- Conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

The auditor reviews and reports on the audited body's corporate governance arrangements.

4.1 Corporate governance framework

The Board of Management has established the following committees, which contribute to the culture of risk management and internal control at the College: Finance Committee, Chairs Committee, Audit Committee, Property Committee, and Human Resources Committee.

The work of these committees is described in the Corporate Governance Statement contained within the annual accounts.

4.2 Corporate governance statement

Requirement for a corporate governance statement

Colleges are required to include a statement on their corporate governance arrangements within their annual accounts. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

Guidance on the 2005/06 statement

The Accounts Direction issued by SFC on 26 May 2006 contains guidance on the corporate governance statement. A revised Combined Code on Corporate Governance was issued in July 2003, which supersedes the Code issued in 1998.

Following consultation with Further Education and Higher Education sector groups, colleges and universities, it was agreed that the 2003 Combined Code will be effective for the 2006/07 financial statements. Colleges have been encouraged to prepare a Turnbull-compliant statement in 2005/06.

The College's corporate governance statement for 2005/06 illustrates that the College was fully compliant with the 2003 code throughout the period.

Unqualified audit opinion

We have reviewed the corporate governance statement included within the annual accounts. Our audit opinion on this statement is covered by our auditors' report and is unqualified in this respect.

4.3 Internal Audit

Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service was delivered by Chiene and Tait.

Reliance on internal audit

To avoid duplication of effort and ensure an efficient audit process, we have placed reliance wherever possible on the work of the internal auditors Chiene and Tait.

We have made use of the internal audit work in the following areas:

- SUMS and fee waiver
- Operational and strategic planning
- Budget management and Control

We are grateful to Chiene and Tait for their assistance and co-operation during 2005/06.

4.4 Fraud, irregularity and corruption

College's responsibilities

To ensure the integrity of public funds, the College is responsible for establishing arrangements to prevent and detect fraud and other irregularities.

Auditors' responsibilities

We consider the arrangements made by management in the following ways:

- Our systems based audit is planned so as to provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity.
- We focus on specific areas of high risk for potential fraud and irregularity and review the arrangements in place in these areas.
- We review the Technical Bulletins produced by Audit Scotland with regard to fraud reports and ensure that the College has arrangements in place to prevent similar frauds occurring.
- We review the extent and adequacy of the Internal Audit function within the College.
- We examine the financial instructions issued by the College to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control.

Conclusion

We are pleased to report that our audit identified no issues of concern in relation to fraud, irregularity and corruption.

4.5 Standards of conduct, integrity and openness

Propriety requires that public business be conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers' of interest and schemes of delegation and complying with national and local Codes of Conduct.

Conclusion

We are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

4.6 Financial standing

It is the responsibility of the College to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the College's financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the College's operations and use of resources.

Financial position

The College is reporting an operating surplus for the year of £977,000.

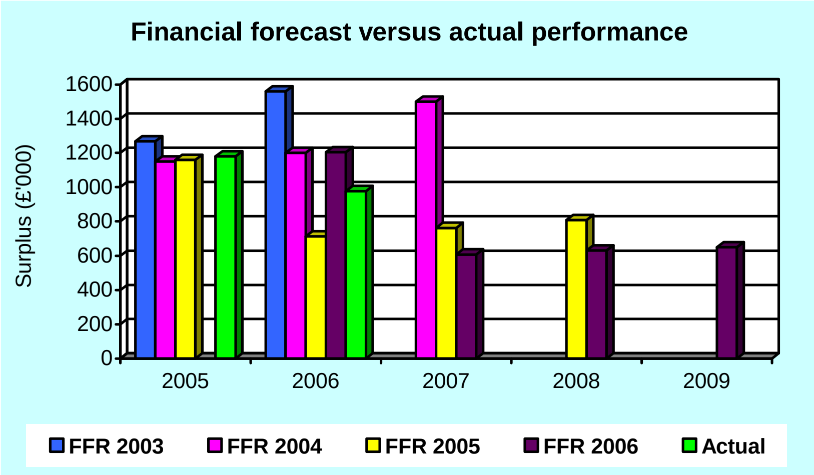
The financial statements for year ended 31 July 2005 required to be re-stated as a result of the implementation of Financial Reporting Standard 17 – Retirement Benefits (FRS 17). This has resulted in the disclosure of a pension liability and pension reserve of £3,754,000 at 31 July 2006 (2005 - £4,162,000).

The Group has reserves of £52,410,000. Of this £31,861,000 is held within restricted reserves, the majority of which relates to sale proceeds from the various campus sites. These properties were inherited at the time of incorporation and, under SFC guidance, the proceeds must be held and used against future property costs. The College plans to transfer this reserve to the general reserve in line with the depreciation on the new campus.

Financial planning and budgetary control

One of the ways by which SFC assesses the quality of colleges' financial planning and budgetary control is to compare the surpluses or deficits achieved by colleges with those forecast in their annual financial forecast returns (FFR).

The table below compares the actual results for 2004/05 and 2005/06 with the FFR forecasts and shows the latest predictions within the 2006 FFR. As shown, the College's actual performance has been generally consistent with its forecast and the College is forecasting to achieve healthy surpluses for the next three years.



Financial reporting

The Finance Department provides budget holders with monthly reports comparing actual and budgeted income and expenditure. Performance against SUMs targets is also provided by the Student Records Department on a regular basis. Budget holders are required to provide explanations for any significant variances from budgets.

Conclusion

In our opinion, the College has established adequate arrangements for financial planning, budgetary control and financial reporting

5 Action Plan

5.1 Summary

Our action plan summarises all of the control weaknesses and opportunities for improvement that we have identified during our 2005/06 audit.

It should be noted that the weaknesses identified in this report are only those have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

5.2 Priority rating

The priority rating is intended to assist the College in assessing the significance of the issues raised and in prioritising the action required to address them. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action;
Priority 2	Medium risk, significant observations requiring reasonably urgent action;
Priority 3	Low risk, minor observations which require to be brought to the attention of management.

5.3 Key Issues from 2005/06 Final Audit

Title	Issues identified	Risk and recommendation	Management comments
5.3.1 **Annual accounts preparation** ***Priority 1***	The College was not fully prepared for the audit. We did not receive draft accounts or working papers on 25 September 2006 as agreed. The first set of draft accounts were incomplete and contained a number of material errors. In addition, we experienced difficulties obtaining information and explanation to support the accounts. The delays in the audit were due to a number of factors: • Changes and absence of key staff • Changes in finance system • Lack of internal quality review of draft accounts or working papers. We had to spend additional time helping to update the accounts as well as obtaining all the evidence that we required.	Failure to produce financial statements and working papers to a satisfactory level results in: • Increased risk of material misstatements in the accounts. • The College potentially missing its sign-off deadline, and • Additional audit fees To ensure that the College experiences a smooth audit process in future years, we recommend that: 1. the College produces an accounts preparation timetable with responsibilities clearly allocated, and 2. the draft financial statements and working papers are reviewed by a senior member of the finance department prior to the commencement of the audit.	The 2005/06 year end was a particularly difficult time for the college as not only did we have to content with the physical move of the campus, there were also major staffing and systems issues to deal with at the same time. Despite deploying additional resources and backfilling the Finance Manger Post, the audit pack and draft financial statements were not completed to plan. As such we accept the auditors' comments and acknowledge the issues raised. We believe this issue to be a one off and have put processes and a structure in place to ensure this does not happen again. **Responsible officer**: Associate Principal – Finance & Corporate Resources **Implementation date**: November 2006

Title	Issues identified	Risk and recommendation	Management comments
5.3.2 **VAT** ***Priority 2***	As part of our audit process we reviewed the College's VAT procedures. We noted the following issues: • The College placed reliance on its VAT advisors to calculate the amounts to be recovered under the 'Lennartz' mechanism (see section 3.8). During our audit, the College could not provide calculations to support the amounts recovered to date. • The College agreed a partial exemption special method (PESM) with HMRC in March 2005, to be effective from 1 May 1999. However, the College has continued to calculate its annual adjustment based on the previous PESM. • Staff involved in the preparation of VAT returns did not fully understand the VAT liability of the various income sources and the impact of the various income sources on VAT recovery.	The College VAT returns submitted during the year were incorrect. We have been able to gain assurances that any error would not be material to the accounts. Although immaterial, the College should address these issues as they lead to future payments and potentially a visit from HMRC. We recommend that: 1. staff involved in the preparation of the VAT returns are given adequate training to fulfil their responsibilities; and 2. VAT returns should be supported by adequate working papers.	Our VAT Returns have been completed in good faith using information available from our professional advisors. We believe our claims are materially correct. We are currently in discussion with our advisors on the calculation to be used in the future and will ensure all relevant finance staff are involved in these discussions and that they are made aware of the outcome. All decisions and methodology statements will be fully documented. **Responsible officer:** Associate Principal – Finance & Corporate Resources **Implementation date:** January 2007

Title	Issues identified	Risk and recommendation	Management comments
5.3.3 **Pension liability** ***Priority 3***	The College's total pension liability comprises its share of the LPF as well as the liabilities arising in the SPPA scheme as a result of the College's decision to allow employees early retirement. The College has not valued its pension liabilities on a consistent basis. The College's share of the LPF's assets and liabilities has been valued by the College's actuaries. In line with SFC guidance, the College has estimated its liabilities arising from its previous decisions to allow employees early retirement using actuarial tables.	We consider that the actuary's valuation of the pension liabilities offer a better estimation of the College's pension liabilities compared to the actuarial tables obtain from the SFC. We recommend that the College ask their actuaries to value all of the College's pension liability in future years. This will ensure a consistent approach to the valuation of the College's pension liabilities as well as reducing the time taken by the College to prepare the pension disclosures in the finance statements.	We have used the guidance from SFC to determine this liability and recognise the weakness in this calculation. We will have the liability valued by the College Actuaries in order to obtain a robust figure to be included in the College's Pension calculation. **Responsible officer:** Associate Principal – Finance & Corporate Resources. **Implementation date:** By July 2007
5.3.4 **Disaster recovery plan** ***Priority 2***	The College's internal auditors have highlighted the absence of a disaster recovery plan as a major risk to the College.	We agree with internal audit's findings and recommend that the College develop a disaster recovery plan as a matter of urgency.	A disaster recovery plan is in the process of being developed by the College. **Responsible officer:** Associate Principal – Information Systems **Implementation date:** By April 2007

5.4 Follow-up of previous action plan recommendations

Title	Recommendation	Management Comments – November 2005	Follow-up
5.4.1 **Payroll system** ***Priority 2***	The College had identified that its old version of the payroll system was not fit for purpose. We noted that the College had been working alongside Wealdon to identify an appropriate upgrade to the current system. We recommended that the College pursue this as a priority.	The upgrade path has been identified and there is a migration plan to sit along side it. The parallel run is taking place though to November and with a go live date of December.	The payroll and human resources modules were upgraded in May 2006. The modules are now integrated and the system is operating effectively. ***Action taken as agreed***
5.4.2 **Financial Ledger – Project Plan and Post Implementation Review** ***Priority 2***	We reported in our 2005/06 management report that the College was part way through the implementation of its new financial ledger system. We recommended that the College agree a formal project plan, including risk register, for the second phase of the project.	Action is being taken to address this recommendation.	The major element of the project has now been completed. ***No further action required***

Title	Recommendation	Management Comments – November 2005	Follow-up
5.4.3 **Financial Ledger – Transfer of General Ledger Balances** ***Priority 2***	We noted that there was a risk that data may be lost or incorrectly posted during the transfer to the new ledger system. We recommended that the College employed effective control and reconciliation mechanisms.	We will ensure that the controls we had previously deployed are used again in this instance.	We confirmed during our 2005/06 audit work that the balances from the old ledger had been successfully transferred to the new system. ***Action taken as agreed***

Title	Recommendation	Management Comments – November 2005	Follow-up
5.4.4 **Financial procedures** ***Priority 2***	We reported that there was a need to update the College's financial procedures to reflect changes in system as well as staff.	We note your comments and agree the importance of documenting our processes and procedures. It is our aim to complete this work in tandem with rolling out the phased migration of Exchequer.	Some of the College's financial procedures have been updated, however many of the procedures remain to be updated. ***Action outstanding*** We repeat our original recommendation. **Management comment:** This is on going work which will be taken on by the new Finance Manager when he joins us in December. **Responsible officer:** Associate Principal – Finance & Corporate Resources **Implementation date:** By July 2007

Title	Recommendation	Management Comments – November 2005	Follow-up
5.4.5 **Subsidiary Companies – Accounting Records** ***Priority 2***	We noted that the College's subsidiaries – Thomas Telford Trust and Prospect-Us did not have separate ledgers. As a result there is a risk that the College is unable to demonstrate that it is maintaining appropriate financial records for each separate company. We recommended that the College consider implementing separate financial ledger to each system.	We agree with the theory of having separate ledgers for each of the entity. However the practicality of doing so, based on the number of transaction, the value of transactions and the maintenance cost of such an approach also have to be considered. If these factors are reasonable and the cost is an immaterial one to bear then we will implement this recommendation in full.	The activities of Prospect-Us have been transferred to the College and the company is now dormant. The College has considered a separate ledger for Thomas Telford Trust and does not consider one necessary. ***No further action required***

Title	Recommendation	Management Comments – November 2005	Follow-up
5.4.6 **Thomas Telford Trust – Charities SORP** ***Priority 2***	The Thomas Telford Trust (TTT) is a charitable organisation. As such it must prepare accounts under the provision of the Charities Statement of Recommended Practice (SORP). An updated SORP became applicable to all accounting periods beginning on or after 1 April 2005. We recommended that the College ensure that sufficient accounting records are maintained to allow the preparation of accounts under the revised SORP.	Agreed. This recommendation will be adopted.	The College prepared draft accounts based on the previous charities SORP. We had to perform additional work amending the accounts to comply with the new SORP. ***Action not taken as agreed*** We repeat our original recommendation. **Management comment:** We note and agree with the auditors comments. The Accounts for TTT will be completed using the relevant SORP. **Responsible officer:** Associate Principal – Finance & Corporate Resources **Implementation date:** By July 2007

Title	Recommendation	Management Comments – November 2005	Follow-up
5.4.7 **Fee recovery** ***Priority 2***	The College is fully aware of all of the limitations and weaknesses in the fee ledger system and has put in place controls to ensure that fee income is not lost. We would encourage the College to discuss with SFC and other colleges the possibility of commissioning a new national system that meets the needs of all colleges.	The College has implemented an Information Management Projects with a brief to: • Review the functionality of the existing system, • Recommend a replacement system if necessary. From 1 August 2005 the College has been operating the Exchequer financial ledger. This is expected to improve the level of financial reporting and information available.	The College accepts that there are weaknesses in the system and has implemented compensating controls to address these. ***No further action required***
5.4.8 **Fixed asset register** ***Priority 2***	We recommended in our 2002/03 management report that: • the fixed asset register is updated to include revaluation by asset, accumulated and annual depreciation; • the costs of the new campus which have been capitalised are added to the fixed asset register; • all disposals are completely removed from the fixed asset register during the year of disposal.	The College implemented the Exchequer financial ledger in August 2005. Following this exercise it is planned that a capital asset finance module will be procured.	The College is still in the process of implementing phase 2 of the financial ledger upgrade. The addition of a fixed asset register will be included in this stage. ***Action ongoing***

Title	Recommendation	Management Comments – November 2005	Follow-up
5.4.9 **Fixed Assets** ***Priority 3***	We would encourage the College to complete the verification process to ensure that the fixed asset register accurately reflects the assets held by the College. We recommended that some form of fixed asset verification is carried out on a periodic basis.	All fixed assets have been written down at the year-end. Verification procedures will be development for the new campus.	The College has developed verification procedures for its IT equipment; however there are no overarching asset verification procedures. ***Action ongoing*** We repeat our original recommendation. **Management Comment:** Work to replace the fixed asset register is currently underway. It is anticipated that a complete fixed asset register will be in place by July 2007. **Responsible officer:** Associate Principal – Finance & Corporate Resources **Implementation date:** By July 2007

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