



HENDERSON LOGGIE

Aberdeen College

**Annual Audit report for 2006/07
to the Board of Management and
the Auditor General for Scotland**

External Audit Report No: 2007/03

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2 Introduction	3-4	This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's <i>Code of Audit Practice</i> ('the Code') and <i>Statement of Responsibilities of Auditors and Audited Bodies</i> .
3 Corporate Governance	5-7	This report is for the benefit of only Aberdeen College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.
4 Performance	8-9	Nothing in this report constitutes a valuation or legal advice.
5 Financial Statements	10-11	We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.
Appendix I - Confirmation of Independence	12	This report is not suitable to be relied on by any party wishing to acquire rights against Henderson Loggie CA (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.



Executive Summary

1.1 Corporate Governance

- ❑ The Group has shown a surplus for the year of £3.051 million and an income and expenditure account balance of £9.498 million at 31 July 2007. The College's position is a surplus for the year of £3.058 million and an income and expenditure account balance of £9.512 million at 31 July 2007.
- ❑ The College's internal auditors have concluded that *"We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the college's risk management, control and governance processes. In our opinion Aberdeen College has adequate and effective risk management, control and governance processes to manage the achievement of the college's objectives."*
- ❑ The College's Corporate Governance Statement confirms that the College complies with all of the provisions of the 2003 Combined Code on Corporate Governance in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2007.
- ❑ 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 has an on-going process for identifying, evaluating and managing its significant risks.

1.2 Performance

- ❑ The College updated its Strategic Plan during the year. Board members' self evaluation of performance scored the College's strategic planning arrangements as "Very Good" representing a major strength. Internal audit concluded that *"...we are satisfied that the area of Strategic and Business Planning appears to be working satisfactorily and efficiently."*
- ❑ The College's risk management policy was updated in 2006 with the risk register updated on an on-going basis to account for changes in strategic and operational risks. Risk management arrangements were assessed by the College's internal auditors as according to good practice.
- ❑ Regular performance reports are submitted to the Board and Committees during the year. Performance Indicators are established and use of benchmarking focussed on quality improvement is made by the College.
- ❑ The College Efficient Government Initiative submission identified potential savings of £0.495 million over three years to 2008.
- ❑ The College has a VFM policy setting out the objectives and responsibilities for securing value for money.



Executive Summary

1.3 Financial Statements

- ❑ On 10 December 2007 we plan to issue an audit report expressing an unqualified opinion on the financial settlements of the College for the year ended 31 July 2007 and on the regularity of the financial transactions reflected in those financial statements.
- ❑ 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.
- ❑ Four audit adjustments together with a number of disclosure adjustments were made to the financial statements. A separate report to those charged with governance has been issued which explains the nature of the adjusted and non-trifling unadjusted misstatements.
- ❑ The College significantly exceeded its budgeted surplus of £0.517 million for the year to 31 July 2007 in recording a surplus of £3.051 million. The College and its subsidiary company, ASET, generated a significant increase in income (£5.339 million), with tuition and educational contract income growing by 41.2% (£3.526 million).
- ❑ The College has exceeded its SUMS target for 2006/07 by 9.4% (2005/06 – 6.5%).



Introduction

2.1 Background

2.1.1 2006/07 was the first year of our five year appointment as external auditors of Aberdeen College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work.

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our Strategic Planning Memorandum and 2006/07 Annual Audit Plan issued on 20 March 2007. The scope of the audit was to:

- ❑ provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;
- ❑ review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and
- ❑ review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

2.1.3 Our audit approach focused on the identification of the significant risks areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include;

- ❑ compliance with legislation and financial regulations;
- ❑ fixed assets transactions, including the estates development strategy implementation, the proposed sale of Balgownie Centre, on-going estate improvements and maintenance, compliance with relevant financial reporting standards;
- ❑ recognition of funding provided for specific purposes and the regularity of corresponding expenditure;
- ❑ the financial results of the College's subsidiary company and the impact on the Group accounts.

2.2 Basis of Information

2.2.1 External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.



Introduction

2.2 Basis of Information (Cont'd)

2.2.2 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.

2.3 Acknowledgement

2.3.1 Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.



Corporate Governance

3.1 Financial Position

- 3.1.1 Funding Council circular FE/54/02, issued on 20 December 2002 defines a college that is financially secure as one that *‘on a continuing basis, is able to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve. The college must also generate sufficient cash to finance its operations and meets its liabilities; regular operating surpluses would ensure this.’*
- 3.1.2 Table 1 provides a summary of the College’s planned and actual financial results, based on the formal returns submitted, by the College, to the Funding Council.

Table 1: Comparison of planned and actual financial results

	2005/06 Actual £000	2006/07 Planned £000	2006/07 Actual £000	2007/08 Planned £000
Financial outturn Surplus	2,009	517	3,051	821
Income and expenditure reserves	5,969	6,970	9,498	10,606
Cash balances	10,594	10,430	14,454	8,000

Source: Audited accounts and approved budgets

- 3.1.3 Based on the results for the year to 31 July 2007 the College meets the requirements of the Funding Council to be classed as financially secure.
- 3.1.5 Overall, the College income in 2006/07 has increased by £5.339 million (15.3%) over 2005/06. The main reason for this increase is due to significant increase of £3.526 million (41.2%) in tuition fees and educational contract income. This includes an increase of £3.128 million (92.5%) on other funded tuition. SFC Grants income rose by £1.572 million (6.2%) over the previous year.
- 3.1.6 Expenditure in 2006/07 rose by £4.229 million (12.9%) over 2005/06 primarily due to staff costs increasing by £2.130 million (12.7%) and an increase in other operating costs of £2.571 million (19.8%). The major element of the increase in other operating costs is the significant increase in agency costs, up by £1.528 million (42.8%). This increase in agency costs has been necessary to achieve the increased level of income generating activity.
- 3.1.7 The College’s cash balance at 31 July 2007 was £14.454 million, an increase of £3.860 million (36.4%) on the previous year. The level of build up in cash balances is in part linked to the College’s Estate Development Strategy.
- 2006/07 SUMS outturn**
- 3.1.8 The College’s outturn against its 2006/07 SUMS target is shown in table 2.

Corporate Governance

3.1 Financial Position (Cont'd)

Table 2: 2006/07 SUMS outturn

	2005/06	2006/07
SUMS target	142,714	149,421
SUMS actual	152,050	163,467
Excess	9,336	14,055

Source: Audited SUMS returns.

3.1.9 As the College's external auditor we carried out the audit of the SUMS return for 2006/07. We concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

FRS 17

3.1.10 In 2006/07 the College accounted for its participation in the local government pension scheme as if it were a defined contribution scheme. This is consistent with the accounting treatment adopted in 2005/06.

Capital Income and Expenditure

3.1.11 The College purchased assets with a value of £2.533 million in the year relating to land and buildings, ICT and other equipment assets. These have been funded from the College's own funds together with deferred capital grants totalling £1.668 million received in respect of land and buildings and equipment.

3.1.12 Fixed asset disposals in the year represent the write out of fully depreciated computer equipment no longer held. A non-refundable deposit of £0.305 million has been received in respect of the proposed sale of the Balgownie Centre. The deposit has been provided for as deferred income. A number of planning issues require to be resolved before the sale can proceed. The asset remains accounted for as a fixed asset as the sale is not expected to be concluded before 31 July 2008.

Designated Reserve

3.1.13 The College maintains a Designated Reserve to hold disposal proceeds of properties sold as part of the Board's Accommodation Strategy. Funds are released from the reserve to match associated costs of works undertaken as part of the Strategy. There was a release of £0.232 million from the reserve to the Income and Expenditure Account during the year.

Provisions

3.1.14 The College has a provision in its balance sheet for £5.403 million relating to pension costs from early retirements awarded to former employees. The provision has increased by £0.103 million in the year to reflect the actuarially assessed pension liability.

3.2 Systems of Internal Control

Control environment

3.2.1 Our work undertaken in relation to the 2006/07 financial statements audit has not identified any control weaknesses in the operation of financial controls and procedures.



Corporate Governance

3.2 Systems of Internal Control (Cont'd)

Internal Audit

- 3.2.2 Baker Tilly provided internal audit services to the College in 2006/07. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate.
- 3.2.3 The College's internal auditors have concluded that *"We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the college's risk management, control and governance processes. In our opinion Aberdeen College has adequate and effective risk management, control and governance processes to manage the achievement of the college's objectives."*

3.3 Corporate Governance Statement

- 3.3.1 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. The College adopted the revised Combined Code on Corporate Governance issued in 2003 for the 2006/07 financial statements.

- 3.3.2 We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal controls.
- 3.3.3 The College's corporate governance statement for 2006/07 states the College complies with all of the provisions of the 2003 Combined Code on Corporate Governance in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2007.
- 3.3.4 Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.

3.4 Fraud and irregularity, standards and conduct, and prevention and detection of corruption

- 3.4.1 During 2006/07 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements*.
- 3.4.2 The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations and a Prevention of Fraud Policy. These documents are reviewed and updated annually.
- 3.4.3 There are no outstanding recommendations from previous reports in relation to prevention and detection of fraud and irregularity, standards of conduct and prevention and detection of corruption.



Performance

Introduction

- 4.1.1 The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.
- 4.1.2 No performance audit studies were identified by Audit Scotland for the College during 2006/07.

Strategic Plan

- 4.1.3 The College's Strategic Plan was updated for the period 2007/08 to 2009/10, incorporating strategic aims established by the Board at its meeting on 16 January 2007.
- 4.1.4 The College's internal auditors reviewed the College's strategic and business planning processes and concluded as follows: "*we are satisfied that the area of Strategic and Business Planning appears to be working satisfactorily and efficiently.*"

Risk Management

- 4.1.5 The College has a Risk Management Policy last updated in June 2006 and due for review in June 2008. The College's risk register was approved by the Senior Management Team in 2006. The risk register has subsequently been updated to reflect on-going assessment of the strategic and operational risks faced by the College.
- 4.1.6 Internal audit reviewed the College's risk management arrangements and concluded "*...arrangements accord with good practice, but certain minor matters were noted as requiring improvement.*"

Performance management

- 4.1.7 The Board receives regular reports on its performance in the form of Performance Indicators, covering a number of areas, including course provision and HR. Regular reports are presented to the Course Provision and Student Service Committee and the Human Resources Committee.
- 4.1.8 In past years the College commissioned on three separate occasions financial benchmarking reviews. These reviews provided information on changes in performance compared with previous academic years and performance compared with 'least-cost' and 'average' colleges in the further education sector in Scotland and England. The approach was a comprehensive review of College income and expenditure and resulted in practical actions for improvement that led directly to cost savings.
- 4.1.9 In 2003 the SFC established a benchmarking approach founded upon an analysis of colleges' audited financial statements. The data produced provides benchmarking information on college performance which colleges can use. The College considers the benchmarking information in its overall assessment of performance.
- 4.1.10 In 2006, the SFC facilitated the establishment of benchmarking 'clubs' to encourage benchmarking activities in the colleges that it funds. The College is part of a benchmarking arrangement with Dumfries and Galloway College and Stow College that has been in place for a number of years and the arrangement has proved to be beneficial to the College.
- 4.1.11 The College has benchmarked activities as part of a pan-European project to develop peer review techniques as tools for quality improvement.



Performance

Performance management (Cont'd)

4.1.11 The focus of the College's benchmarking activities has been on quality improvement. The benefits of this approach are, in part, seen in enhanced level of customer service and improvements in surveyed levels of customer satisfaction.

Self Evaluation

4.1.12 The College's Board carried out a self-evaluation in 2006/07 following an established framework to evaluate its performance in three key areas: governance, strategic planning and monitoring. Following collation of individual submissions from Board members a self evaluation paper was considered by the Board of Management in June 2007. In all three key areas a score of "Very Good" was given representing the view of members that in these areas the College had major strengths.

4.1.13 An Interim Review of Achievements was reported to the Board in December 2006 to enable the Board to consider progress made in relation to Strategic Aim A relating to governance and management.

Efficient Government Initiative (EGI)

4.1.14 The College submitted its EGI information schedule to the SFC as required of them. Six main areas were identified providing the potential for savings of £0.495 million. The largest area for savings comes from a move to externalise the College's refectory services. Other areas of saving come from standardisation of processes and improved IT solutions facilitating a greater degree of automated applications.

Value for Money

4.1.15 The College has a VFM policy setting out the objectives and responsibilities for securing value for money. SFC benchmarking has confirmed the College has low unit costs of operation. The College's benchmarking activities help identify possible areas for improvement action.



Financial Statements

5.1 Audit Opinion

5.1.1 On 10 December 2007 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2007 and on the regularity of the financial transactions reflected in those financial statements.

5.2 Audit Completion

5.2.1 An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 3 the three key elements of the audit process that we require the College to engage with.

Table 3: Key elements of the audit process

Completeness of draft financial statements

A set of draft financial statements was received at the start of the final audit visit. These were of a high standard and required minimal presentational changes as part of the audit process.

Quality of supporting working papers

In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. A full set of supporting working papers were provided in line with this list from the outset of the audit and were of a suitably high standard.

Response to audit queries

We are pleased to note that all audit queries were dealt with in a timely manner.

5.3 Audit Adjustments and Confirmation

5.3.1 In table 4 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process, followed by confirmation of our independence.

Table 4: Audit adjustments

	Income and expenditure account impact	Balance sheet impact
Computer equipment fully written off:		
Owned: Cost and Aggregate £1.563m	Nil	Nil
Leased: Cost and Aggregate £0.765m	Nil	Nil
Reclassification of finance lease payment - £0.036m	Nil	Nil
Reclassification of travel card income due to be donated to charity - £0.004m	Nil	Nil
Over accrual of fee waiver income for 2005/06	-16,501	-16,501

5.3.2 In addition, a number of disclosure and clarification adjustments were made to the accounts to ensure SORP compliance and improve the overall presentation of the accounts.



Financial Statements

Confirmations and Representations

- 5.3.2 We confirm that as at 15 November 2007, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired. Appendix I provides a copy of the letter issued to the audit committee.
- 5.3.3 In accordance with auditing standards, we obtained representations from the College on material issues.



Appendix I - Confirmation of Independence

To: Aberdeen College and the Auditor General for Scotland

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on Henderson Loggie's independence and the objectivity of the audit team. This statement is intended to comply with this obligation.

We have considered the fees paid to us by Audit Scotland and the College for professional services provided by us during the reporting period.

We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

Henderson Loggie is committed to being and being seen to be independent. As part of our ethics and independence policies, all Henderson Loggie staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings or interests. Our Ethics and independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;

risk management; and

independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the College / audit committee.

Confirmation of Audit Independence

We confirm that as at 15 November 2007, in our professional judgement, Henderson Loggie is independent within the meaning of regulatory and professional requirements and the objectivity of the audit director and audit staff is not impaired.

This report is intended solely for the information of the College and audit committee of Aberdeen College and should not be used for any other purposes.

Yours faithfully

Henderson Loggie

