SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

The Adam Smith College, Fife

Annual Report to the Board of Management and the Auditor General for Scotland 2006/07

12 December 2007

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1 Summary

Governance

- The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the 2003 Combined Code on Corporate Governance during 2006/07. A revised Combined Code on Corporate Governance was issued in 2006 and is applicable for reporting periods beginning on or after 1 November 2006. We recommend that the College reviews its current corporate governance arrangement against the 2006 Code.
- We identified no significant errors or weaknesses during our audit. In general, the College's systems of internal control appear to be adequate, well designed and operating effectively.
- HMIE reviewed the College during the year and issued its report on 7 September 2007. The College was assessed as 'good' or 'very good' in all areas covered by the inspection.

Finance

- Our audit opinion on the truth and fairness of the College financial statements is unqualified. Our regularity opinion is also unqualified. The accounts comply with the Accounts Direction issued by the Scottish Funding Council (SFC) and the Statement of Recommended Practice on Accounting for Further and Higher Education. The deadline for submitting final accounts to SFC will be achieved.
- The College achieved a surplus of £808,000 for the year to 31 July 2007. The College transferred £400,000 to a designated property reserve and retained the balance of £408,000 within general reserves.
- This is the second year in which the College has been required to disclose the local government pension scheme liability on its balance sheet. The pension liability as at 31 July 2007 was £1,298,000.

Conclusion

This report concludes the 2006/07 audit of The Adam Smith College, Fife. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing and Ethical Standards.

This report has been discussed and agreed with the Assistant Principal – Finance & Resources / Director of Finance and has been prepared for the sole use of The Adam Smith College, Fife, the Auditor General for Scotland and Audit Scotland. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff

12 December 2007

2 Introduction

2.1 Audit appointment

The Auditor General for Scotland is responsible for reporting to the Scottish Parliament on how public bodies spend public money, manage their finances and achieve value for money in the use of public funds. In discharging this responsibility the Auditor General appoints FE College auditors and sets the terms of their appointment.

The Auditor General for Scotland has appointed Scott-Moncrieff as external auditor of The Adam Smith College, Fife ('the College') for the five year period 2006/07 to 2010/11.

This annual report summarises our 2006/07 audit of the College and highlights the key issues arising from our work.

2.2 Independence and ethical standards

Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires external auditors to inform the Audit Committee on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We can confirm that we have complied with the APB Ethical Standards throughout the audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way.

2.3 Key risks

Our audits are risk based. This means that we focus our resources in the areas of highest priority or risk to the Board. The key audit issues identified for the 2006/07 audit were summarised in our external audit plan presented to the Audit Committee on 11 September 2007. These audit issues were:

- Corporate Governance – Combined Code (see section **3.2**),
- HMIE visit (see section **3.7**)
- Group accounts (see section **4.6.1**),
- Fife Council Pension Fund liabilities, (see section **4.6.2**),
- European grants (see section **4.6.3**),
- Capital grants (see section **4.6.4**),
- Cadham premises, (see section **4.6.5**),
- Early retirement liabilities (see section **4.6.6**),

- VAT on St Brycedale campus (see section **4.6.7**),

This report includes our findings in relation to these key risks.

2.4 Scope of the audit

Our audit work can be classified under the following two headings: governance and finance. The main audit objective for each of these areas is summarised below.

2.4.1 Audit areas and audit objectives

Audit area	Audit objective
Governance	To review the College's governance arrangements in relation to: • systems of internal control and risk management, • the prevention and detection of fraud and irregularity, • standards of conduct and prevention and detection of corruption.
Finance	To provide an opinion on the truth and fairness of the College's financial statements and on the regularity of transactions. To review the College's financial standing, and financial management arrangements.

The remainder of this report sets out the results of our work in 2006/07. The action plan in section 5 details the recommendations we have made during the year.

3 Governance

3.1 Introduction

The College 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; and
- conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

It is our responsibility to review and report on the College's governance arrangements.

It is also our responsibility to review the College's governance arrangements in relation to its financial position. This is reported in section 4 – Finance.

3.2 Corporate Governance Statement

3.2.1 Requirement for a Corporate Governance Statement

Colleges are required to include a statement on their corporate governance arrangements within their annual account. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and reports the College's compliance with the Combined Code.

We are required to report whether the College's Corporate Governance Statement reflects the College's compliance with the requirements of the Scottish Funding Council (SFC).

3.2.2 The College's Corporate Governance Statement for 2006/07 – fully compliant statement

The College's corporate governance statement for 2006/07 explains that the College was fully compliant with the 2003 Combined Code throughout the period.

3.2.3 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.

3.2.4 Combined Code 2006

A revised Combined Code on Corporate Governance was issued in June 2006, which supersedes the Code issued in 2003.

The Combined Code 2006 is applicable for reporting years beginning on or after 1 November 2006 and therefore the College is encouraged to adopt the revised code for its 2007/08 annual accounts. We recommend that the College reviews its corporate governance arrangements against the 2006 Code in preparation for making its Corporate Governance Statement in its 2007/08 annual accounts (see action plan **5.2.1**).

The 2006 Combined Code contains a new provision B.2.1 which requires that the Board Chairman should not chair the remuneration committee, although the Board Chairman is allowed to be a member of the committee. This provision is designed to support the principle that "no director should be involved in deciding his or her own remuneration". As college board chairs are not remunerated the Board could continue with its current arrangements and still be in compliance with the Combined Code, as long as the arrangements are explained in the Corporate Governance Statement.

3.3 Risk management

Risk management is important to the establishment and regular review of systems of internal control. We have reviewed the College's risk management arrangements.

The College approved a Risk Management Policy and issued Risk Management Procedures during 2005/06. The College has a risk register in place and this is maintained by the Director of Corporate Services, who along with senior management is responsible for reviewing and updating the risk register on a monthly basis. Changes to the action plan and risk register are reported to the Audit Committee at quarterly meetings. Following discussion at the Audit Committee the report is presented at the next College Board meeting.

We have concluded that the College appears to have robust risk management systems in place.

3.4 Internal audit

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

As required by the Code of Audit Practice, we undertook a review of the College's arrangements to ensure that the work of Internal Audit is sufficient in quality and volume and performed in accordance with the Code of Audit Practice. The review concluded that the internal audit service provided to the College was in compliance with the Code of Audit Practice.

3.4.1 Reliance on internal audit

To avoid duplication of effort and ensure an efficient audit process, we planned our audit work to place reliance wherever possible on the work of internal audit. We can confirm that the internal audit service has completed their work plan for the year.

During 2006/07 we have reviewed the following Internal Audit reports:

- Payroll
- Health and Safety
- IT infrastructure
- Disaster Recovery
- Registry Services
- Freedom of Information
- Performance Management (draft)

We considered the results from these reports on our own risk assessments. We are grateful to Chiene and Tait for their assistance during the course of our audit work.

3.5 Prevention and detection of fraud and irregularity

We are required to consider the arrangements made by management for the prevention and detection of fraud and irregularity. Fraud is defined as deception made for personal gain and irregularity is defined as transactions which do not comply with Scottish Ministers guidance. We consider the arrangements made by management in the following ways:

- We examine the financial instructions issued by the College to ensure that they deal adequately with fraud and irregularities and provide a framework for exercising strong internal control,
- 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 are pleased to report that we identified no issues of concern in relation to the arrangements for the prevention and detection of fraud or with regard to the legality of transactions.

3.6 Standards of conduct, integrity and openness

We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption.

Propriety requires that public business is 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. Guidance on standards of conduct, accountability and openness has been issued by the Scottish Government (formerly Scottish Executive).

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. We also considered controls over ordering and procurement and disposal of assets.

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

3.7 HMIE visit

HM Inspectorate of Education (HMIE) carried out a review during the year and issued its report on 7 September 2007. The review team examined key cross-college functions and processes that have a direct impact on the quality of the learner experience. The review involved scrutiny of documentation provided by the College and interviews with management, staff and students.

HMIE rated the College was assessed as 'very good' in all cross college areas as well as 'good' or 'very good' for the other subject matters that were covered by the inspection. HMIE included the following in its summary:

> HMIE is confident that:
>
> - The College has in place effective learning and teaching processes
> - The learners are progressing well and achieving appropriate outcomes
> - The College is managing well and improving the quality of its services for learners.

We congratulate the College on the results of the HMIE review.

We review HMIE's report and consider if there are any issues identified which require further audit attention. We are pleased to report that the HMIE report did not identify any areas of concern in terms of our audit and provided further evidence on the strength of the College's corporate governance arrangements.

4 Finance

4.1 Introduction

We are 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 of the financial position of the College and its expenditure and income for the period;
- whether they have been prepared in accordance with relevant legislation and applicable accounting standards;
- the regularity of the expenditure and receipts.

We are also required to review the College's governance arrangements in relation to its financial position.

4.2 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 2006/07 comply fully with the Accounts Direction issued by SFC.

4.3 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 colleges and universities 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 2006/07 annual accounts of the College comply with the SORP in all material respects.

4.3.1 FE/HE SORP 2007

A revised SORP was issued in July 2007 and is applicable to the 2007/08 annual accounts. The revised SORP has been prepared on the assumption that Further and Higher Education institutions will not be adopting International Financial Reporting Standards (IFRSs) in the near future and has been based on UK Generally Accepted Accounting Principles (UK GAAP).

The main impact of the revision is the requirement for the College to include an Operating and Financial Review (OFR) to accompany its annual accounts. An OFR is intended to be more detailed and forward looking than the current Report of the Board of Management. To minimise disruption during the year end audit process, we recommend that the College prepare its OFR in advance of the 2007/08 accounts preparation process (see action point **5.2.2**).

4.4 Annual accounts and audit timetable

The deadline for the submission to SFC of FE college audited annual accounts is 31 December. The accounts will be approved by the Board of Management on 12 December 2007 and will be submitted to SFC and the Auditor General prior to the 31 December deadline.

We are pleased to report that we received draft accounts and supporting papers of a high standard on 17 September 2007 as agreed and the audit process ran smoothly.

We are grateful to the Assistant Principal – Finance & Resources / Director of Finance, the Finance Managers and finance staff for their assistance and support during the course of the audit.

4.5 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 2007 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, in all material respects, 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.

4.6 Issues arising from the audit

In order to assist College members' understanding of the financial statements and our audit, we have summarised the issues below that we believe are of particular significance to the 2006/07 financial statements.

4.6.1 Group accounts

The College has a 100% controlling interest in the Adam Smith Enterprise and Education Foundation ('ASEEF') and also had a 50% interest in Oneviz Limited during 2006/07. ASEEF is consolidated into the College 2006/07 group accounts. Oneviz has not been consolidated as it is considered immaterial to the group. As shown in note 31, Oneviz Limited was wound up after the year end.

We do not consider ASEEF's results and financial position at the balance sheet date to be material to the group accounts.

4.6.2 Fife Council Pension Fund liabilities

The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Fife Council Pension Fund for the non-teaching staff.

The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with *Financial Reporting Standard 17 – Retirement Benefits* (FRS 17), the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

The Fife Council Pension Fund is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in its balance sheet. The College reported a liability of £1,298,000 as at 31 July 2007, a decrease of £2,553,000. As shown in note 30 to the annual accounts the main reason for the decrease in the pension liability is an in-year actuarial gain of £2,404,000. This was principally due to changes in the underlying assumption, the expected pension increases and discount rate, in valuing the schemes liabilities.

We have reviewed the College's accounting for the pension liability and ensured that it complies with the requirements of FRS 17.

4.6.3 European grants

Approximately 10% of the College's income comes from European grants. The College recognised European income of £3,341,000 in 2006/07 which is a slight decrease compared with £3,370,000 in 2005/06. The College has experienced difficulties getting the actual payments for the grants approved and the European funding debtor has increased from £917,000 in 2005/06 to £2,009,000 as at 31 July 2007.

We have performed audit work, principally a review of post year end receipts, to provide us with assurances that the debtor is materially correct and is recoverable.

4.6.4 Capital grants

The Scottish Funding Council awarded the College capital grants totalling £1.7 million in 2006/07. The conditions of the grant require the College to have spent or committed the grant by the year end. The College provided us with evidence to show that the grant was either spent or there were plans in place by the year end to spend the funds.

4.6.5 Cadham premises

The College has been leasing premises at Cadham for a number of years. The lease agreement provided the College with an option to purchase the property. For the last three years, the College has been accounting for its lease payments as prepayments in the balance sheet, on the basis that the payments represented capital expenditure on the purchase of the building.

The College arranged a buyer for the property and then the College bought and sold the building on the same day in August 2007. The College has reported this post balance sheet event in note 31 to its annual accounts.

4.6.6 Early retirement liabilities

The College makes monthly payments to the pension fund to cover any shortfall arising from the decision to grant early access to retirement benefits. In line with *Financial Reporting Standard 12*, *Provisions, Contingent Liabilities and Contingents Assets* (FRS 12), the College recognises a liability for the future payments in relation to these early retirements.

The provision for early retirement was £2.392 million as at 31 July 2007, a decrease of £118,000 from the provision as at 31 July 2006. We have audited the College's supporting calculations for the provision and are satisfied that the provision represents a fair estimate of the future payments.

4.6.7 VAT on St Brycedale campus

The College has applied to HM Revenue & Customs for the Lennartz mechanism to be applied retrospectively to the St Brycedale campus redevelopment which was completed in 2004/05. If accepted by HM Revenue & Customs, this would result in the College recovering the VAT on the campus works and then paying a VAT charge on the use of the building over a period agreed with HM Revenue & Customs.

HM Revenue & Customs has not yet notified the College on whether its application has been successful. *Financial Reporting Standard 12*, *Provisions, Contingent Liabilities and Contingents Assets* (FRS 12) requires the College to disclose a contingent asset where it is 'probable' that an inflow of economic benefits will occur. At this stage, the College does not consider it probable that the claim will result in an inflow of economic benefits and has therefore not disclosed a contingent asset.

4.7 Financial Standing

4.7.1 Financial position

The College achieved a surplus of £808,000 for the year to 31 July 2007. The College transferred £400,000 to a designated property reserve and retained the balance of £408,000 within general reserves.

In total, the College has group reserves and deferred capital grants as at 31 July 2007 of £37.393 million. Of this, £13 million is held within the revaluation reserve created when the College was incorporated.

The College forecast a surplus of £652,000 for the year to 31 July 2007 and therefore the College exceeded its forecast surplus by £156,000. The main reason for this variance was the year end pension adjustments, as shown in Note 30 to the accounts, which resulted in a net gain to the College of £149,000. The College bases its pension adjustments on its actuarial report which it does not receive until after the year end and therefore the College could not include these adjustments in its forecasts.

4.7.2 Financial planning, forecasting and control

The College has a responsibility 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.

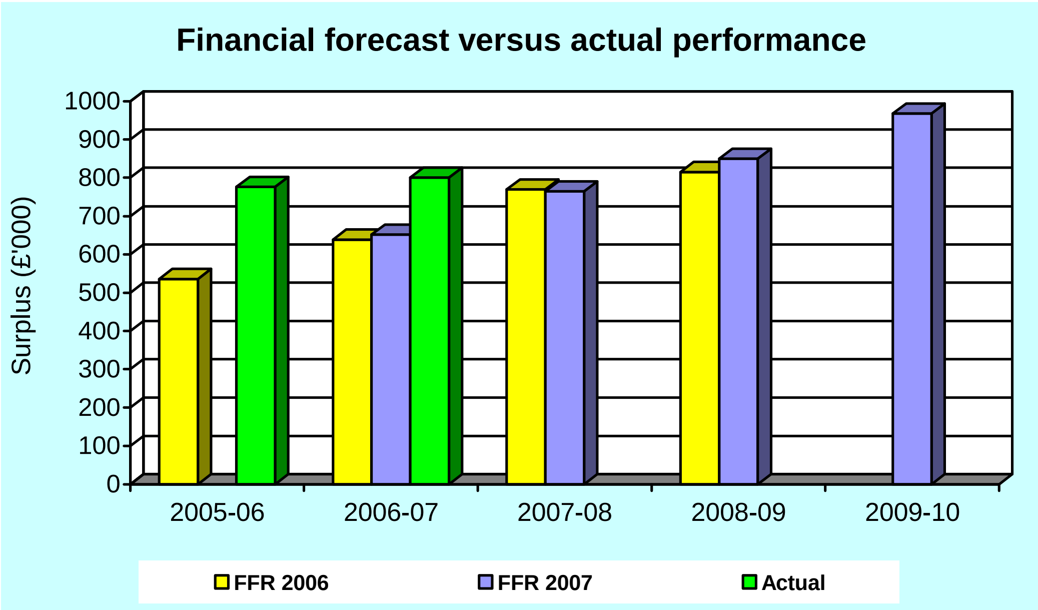
Budgets are devised at the start of the year and approved by the College and are updated during the year to take account of new information. The Board has established a Finance Committee which meets six times a year. Management accounts showing forecast year end positions against budget are presented to each Finance Committee.

4.7.3 Financial forecasts

The College's Corporate Plan 2006-09 includes financial projections through to 2008/09. The Corporate Plan highlights the uncertainty around future European income and states that the College has a programme of reducing reliance on this income.

In addition, the College submits annual Financial Forecast Returns (FFRs) to SFC detailing the expected results for the current year and the next three years. SFC uses the FFRs to assess the financial performance of individual colleges and of the sector as a whole.

The graph below compares the actual results for 2006/07 with the FFR forecasts and shows the latest predictions within the 2007 FFR.



As shown above, the College is expecting to achieve surpluses over the next three years.

4.7.4 Conclusion

In our opinion the College has effective financial management arrangements in place.

4.8 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.

We are pleased to report that we identified no major control weaknesses during our audit of the accounting systems. In general, the College's systems of internal control appear to be adequate, well designed and operating effectively.

We have identified the following minor control weaknesses:

- Lack of segregation of duties in the receipt of income by mail,
- Invoices are not logged on receipt,
- There was no evidence to support the petty cash balances at the year end.

We have included recommendations in our attached action plan to address these weaknesses.

4.9 Estates Strategy

SFC has requested that all FE colleges submit Estates Strategies by the end of 2007 and the College is currently preparing its Estates Strategy. The College's estate includes a number of campuses and there are various options available to the College.

4.9.1 Property reserve

The College has built up a designated property reserve which totalled £800,000 as at 31 July 2007. The reserve is to fund the cost of developing the estates strategy.

4.10 Loss of charitable status

The Office of the Scottish Charity Regulator (OSCR) published the results of the pilot scheme to review charitable status. This included a review of John Wheatley College in Glasgow. OSCR concluded that the charity test was not met because of the ability of Scottish Ministers to direct or otherwise curtail the College's activities. The College has a two year period for a resolution to be found.

Loss of charitable status would result in increased Non-Domestic rates and potential corporation tax liabilities. The College has recognised the risk of losing charitable status in its risk register. The College has not yet quantified the financial impact of the potential loss of charitable status.

5 Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2006/07.

We have made no priority one recommendations in 2006/07.

It should be noted that the weaknesses identified in this report are only those that 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.

5.1 Priority rating

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. 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 action to improve the efficiency, effectiveness on economy of operations or which otherwise require to be brought to the attention of senior management.

5.2 Issues from our 2006/07 audit

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.1 **Combined Code 2006** **(Section 3.3)**	A revised Combined Code on Corporate Governance was issued in June 2006, which supersedes the Code issued in 2003. The Combined Code 2006 is applicable for reporting years beginning on or after 1 November 2006.	We recommend that the College performs a self-assessment against the 2006 Code in preparation for making its Corporate Governance Statement in its 2007/08 annual accounts. ***Priority 2***	Agreed. ***Responsible Officer:*** Assistant Principal – Finance & Resources / Director of Finance ***Implementation Date:*** July 2008
5.2.2 **FE/HE SORP 2007** **(Section 4.3)**	A revised SORP was issued in July 2007 and is applicable to the 2007/08 annual accounts. The main impact of the revision is the requirement for the College to include an Operating and Financial Review (OFR) to accompany its annual accounts.	The preparation of the OFR may delay the 2007/08 annual accounts preparation process. To minimise disruption during the year end accounts process, we recommend that the College prepare its OFR in advance of the 2007/08 accounts preparation process. ***Priority 2***	Agreed. ***Responsible Officer:*** Assistant Principal – Finance & Resources / Director of Finance ***Implementation Date:*** July 2008
5.2.3 **Document management**	We experienced difficulties obtaining a copy of the College's fraud response plan. The plan had been finalised and approved. However, the College had could not initially locate the final version.	There is a risk that the College can not locate important documents when required, i.e. the fraud response plan when a fraud is identified. We recommend that the College create a central log of policies and procedures. ***Priority 2***	Agreed. ***Responsible Officer:*** Secretary to the Board of Management ***Implementation Date:*** TBC

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.4 **Mail income** **(Section 4.6)**	Income received by mail is collected, counted, recorded and stored by one person.	There is a risk of error or fraud. We recommend that another employee is involved on the receipting of mail income. ***Priority 3***	Under consideration by the Finance Committee of the Board of Management. ***Responsible Officer:*** Assistant Principal – Finance & Resources / Director of Finance ***Implementation Date:*** To be informed.
5.2.5 **Invoice log** **(Section 4.6)**	Where invoices are received and an order has not been previously raised, the invoice is passed to the relevant budget holder for approval. Finance do not retain a register of invoices sent to budget holders for approval.	Invoices may go missing resulting in the College underestimating its liabilities and failing to comply with the CBI Prompt Payment Code. We recommend that the College prepare a register of all invoices received which are passed to budget holders for approval. ***Priority 3***	Agreed. ***Responsible Officer:*** Assistant Principal – Finance & Resources / Director of Finance ***Implementation Date:*** January 2008
5.2.6 **Petty cash counts** **(Section 4.6)**	There was no evidence held to support petty cash balances which are included in the College's bank and cash figure in the annual accounts.	The bank and cash figure in the annual accounts may be incorrect. The Finance Manager should ensure all officers responsible for petty cash accounts provide adequate evidence of balances held. These balances should be verified by an independent person. This evidence should be retained as evidence for the final accounts. ***Priority 3***	Agreed. ***Responsible Officer:*** Assistant Principal – Finance & Resources / Director of Finance ***Implementation Date:*** January 2008

5.3 Follow Up of issues from the 2005/06 audit

Title	Original Issue Identified	Original Management Comments	Update at November 2007
5.3.1 **Financial monitoring**	The previous auditors recommended that increased attention should be given to phasing of income and expenditure at the budget stage. Therefore, senior management should continue their focus on implementing a robust and timely system of financial review, including maintaining their focus on ownership of and accountability for financial results at institute level.	We are aware of the phasing issue and are addressing and agree with all points raised. These will be implemented during 2006/07. **Responsible Officer:** Finance Manager **Implementation Date:** 31 January 2007	A more robust system of budget phasing was introduced during 2006/07 and fine tuning of the process will continue as we gather more history on the new College ***No further action required***
5.3.2 **Audit committee membership**	The previous auditors recommended that whilst there are two qualified accountants on the College's finance committee, the Board should reconsider its committee arrangements in line with good practice reflected in the Smith report.	We will raise this issue with the Board. **Responsible Officer:** Assistant Principal & Director of Finance **Implementation Date:** 31 July 2007	Board is content with current arrangements ***No further action required***
5.3.3 **Fixed asset register**	The previous auditors recommended that management should review and update the fixed asset register and revaluation reserve for accuracy to reflect all adjustments in 2005/06. This will ensure that management has an accurate source of information on their fixed asset portfolio on which to base the estates strategy.	Many of these changes occurred during the audit process and the changes have since been made to the fixed asset register. **Responsible Officer:** Not applicable **Implementation Date:** Now implemented	Completed in October 2006. ***No further action required***

Title	Original Issue Identified	Original Management Comments	Update at November 2007
5.3.4 **Financial controls**	The previous auditors recommended that management should ensure that there is evidence of preparation and review of all reconciliations on a regular basis to provide assurance over the operating effectiveness of these key controls.	The bank accounts in question were Student Funds accounts. These are now under control of the Finance department and will, therefore, be subject to normal operating procedures and systems of internal control. Evidence will now be retained in respect of the aged debtors' profile. **Responsible Officer:** John Thomson **Implementation Date:** 31 January 2007	Recommendation implemented. ***No further action required***

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