

**Dundee College**

**Annual Report for the Year Ended 31 July 2007  
To the Board of Management and the Auditor General for Scotland**

**Tenon audit**

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Inverness  
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**Issued <> 2007**

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This report is part of a continuing dialogue between the College and ourselves and is therefore not intended to cover every matter discussed during the course of the audit. For this reason, the report is intended for the sole use of the College, and of Audit Scotland. We do not accept responsibility to any officer or member of the College acting in an individual capacity, and do not accept responsibility for any reliance that third parties may place on the report.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the College accounts as a whole. An audit does not examine every operating activity and accounting procedure in the College, nor does it provide a substitute for management's responsibility to maintain adequate controls over the College's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the College's systems and working practices, or of all improvements that could be made.

## **1 EXECUTIVE SUMMARY**

### **1.1 Financial Review**

- The college achieved a surplus of £1.3m, before exceptional costs of £6.2m
- The exceptional cost of £6.2m arose from impairment of properties earmarked for disposal
- The college continues to maintain a healthy balance sheet with net assets of £28m
- The budget for 2007-08 predicts a small operating deficit
- The college is awaiting a decision from the Scottish Funding Council on plans for estate redevelopment

### **1.2 Financial statements**

- We have issued an unqualified audit opinion on the accounts of The Dundee College for the year ended 31 July 2007
- The principal adjustment from the draft accounts related to the impairment adjustment
- Dundee City Council are unable to provide the college with the information necessary to fully comply with the accounting and disclosure requirements of FRS17

### **1.3 Corporate Governance**

In our first year of appointment we have carried out an overall review of Corporate Governance arrangements, and have no recommendations.

### **1.4 Action Plan**

Our only recommendation relates to achieving full compliance with FRS17.

## **2 INTRODUCTION**

*This is the first year of our five-year audit appointment. The purpose of this report is to give a summary of our audit activity. It includes details of the more significant matters arising from the audit, sets out the respective responsibilities of management and external audit, and reports what action has been taken or is necessary by members or executive management.*

- 2.1** *Our audit of The Dundee College for the year ended 31 July 2007 has been carried out in accordance with statutory requirements and follows the practices prescribed by the Code of Audit Practice and guidance issued by the Auditing Practices Board (APB). The Code of Audit Practice sets out fully the responsibilities of the College and its officers in relation to financial probity, control, preparation of accounts and the achievement of value for money in the provision of services. We are required under the Code to give an independent assessment of how the College has discharged its stewardship of public funds. A summary of our responsibilities is contained in Appendix 2.*
- 2.2** *We have summarised the Key Issues arising from our audit in Section One. In providing the summary, it can be difficult to strike a balance between recognising good performance when achieved and highlighting scope for improvement. The items referred to represent Key Issues for management attention and should not be taken out of the context of the remainder of this report, or the detailed reports covering individual reviews.*
- 2.3** We invite The Dundee College to receive this report and consider the recommendations we have made.
- 2.4** We would be grateful to receive the College's response to the issues we have raised.

### **3 FINANCIAL REVIEW**

#### **3.1 Introduction**

*The purpose of the financial review is to consider the general financial standing of the Dundee College by looking back at financial performance in 2006/07 and to look ahead to the future financial position. Our review is aimed at helping College members understand the financial position of the Dundee College at a particular point in time. It should not be regarded as definitive or comprehensive and the College should not seek to rely on this summary in isolation.*

#### **3.2 Financial Performance 2006-07**

The financial statements reflect a surplus for the year, (before exceptional items of £6.2m), £1.3m (previous year - £0.92m). This compares favourably to the budget of £0.293m surplus. The main movements are summarised below:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Funding Council Grants	18.9	19.4	0.5
Other grants and contracts	1.7	2.1	0.4
Staff costs	17.6	17.1	0.5
Depreciation	1.5	2	(0.5)

The exceptional charge of £6.2m reflects the intention to reconfigure the college estate involving the eventual closure of three current sites, planned for 2010. (See 4.6 for further explanation) This is also explained in note 9 to the accounts.

The college continues to maintain a healthy balance sheet position, with net assets of £28m including cash of £5.4m.

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### **3.3 Reserves**

The college continues to build up its general reserves to £7.6m (previous year - £5.2m). This is part of the longer term estates strategy of reconfiguration.

### **3.4 Financial Plan 2007-08**

The forecast for 2007/08 predict a small deficit, mainly due to an increase in staff costs and a reduction in European grant income.

### **3.5 Capital expenditure plans**

As explained in the report of the board of management accompanying the financial statements, the college is in discussions with the Scottish Funding Council (SFC) to progress the redevelopment of the Gardyne Campus, purchased during the year. The scale of this will be dependent of funding availability.

### **3.6 Recurrent grant allocation**

The SFC has confirmed recurrent Grant income of £ 16.7m and Fee waiver initial grant of £2.2m for the year to 31 July 2008.

#### **4 FINANCIAL STATEMENTS**

**4.1** *The respective responsibilities of the College and Tenon Audit are summarised in Appendix 2. The purpose of this section of our report is to highlight and explain our formal opinion on the financial statements, and to comment on the main issues arising from our audit of the financial statements.*

#### **4.2 Audit opinion**

We have issued an unqualified audit opinion on the accounts of The Dundee College for the year ended 31 July 2007. A copy of our audit opinion is attached to this report at Appendix 1.

#### **4.3 Independence**

In accordance with auditing standards we can confirm that any relationships that may bear on the firm's independence and the objectivity of the audit engagement director and audit staff have been identified and assessed at the planning stage of our audit.

No independence issues have been identified that Board Members need to be aware of.



#### **4.4 Timetable and procedures**

The College is required to submit audited accounts to the Scottish Funding Council by (SFC) by 31 December following the year end.

In order to achieve this deadline the accounts preparation procedures require good planning, commitment, and resources.

We discussed plans for the preparation and audit of the accounts with the Assistant Principal & Director of Finance and key staff in a series of meetings commencing in March 2007.

We are pleased to report that the audited accounts were submitted to the SFC and Audit Scotland by the due date of 31 December 2007. We are grateful to all of those in the Finance and other departments who helped to achieve this.

#### **4.5 Audit approach and materiality**

Our audit planning was carried out taking account of the issues highlighted through a planning meeting with you, and our knowledge and understanding of the business.

In our planning, we have taken account of the reliance that can be placed on the work of the internal auditors, the regulation within the sector, and the results of our own risk assessment made in accordance with the guidance set by International Standards on Auditing (UK and Ireland).

- The level of materiality for making adjustments to the financial statements, as set out in the detailed planning memorandum, was calculated based on total income and the value of general reserves and was assessed at £200,000.

We are required to notify you of any potential adjustments identified during the course of our audit work unless they are clearly trifling. For the purposes of this report we have taken clearly trifling as being less than £2,000.

The following significant matters were discussed with management during the course of the audit. This includes the audit outcome of the key risks identified within our audit planning memorandum dated 2007.

#### **4.6 Accounting policies and practices**

In preparing the financial statements of the College, Members are required under FRS18 to review the College's accounting policies on an annual basis to ensure they remain appropriate to the College's circumstances and are being properly applied.

- We have reviewed the accounting policies and practices selected by the College and are satisfied that the College operates acceptable accounting policies and practices for the purpose of determining whether the financial statements show a true and fair view.

Section 2 of this report summarises the main accounting issues that we have discussed with management and records the adjustments that have been made to the draft accounts as a result of matters arising during the course of the audit. This section also summarises the errors identified during the course of the audit which remain unadjusted.

We draw the Members' attention to the following matters in particular:

- **Impairment**

The college strategic plan 2005-08 sets out a clear vision of two high quality campuses, to replace the existing configuration of four campuses. A central part of this is to acquire the Gardyne campus and to upgrade this over a period of two/three years then dispose of three of the existing sites. The first element of this plan is in place with the purchase of Gardyne in August 2006. Discussions with the SFC regarding funding for the full plans are still ongoing and the college are hopeful of getting approval in late 2007, or early 2008. Clearly there is a commitment from intention on the part of Dundee College to press ahead with these plans even if funding assistance from the SFC is not forthcoming, although this would elongate the process.

The draft accounts included the three sites earmarked for eventual closure at a value which assumed a remaining useful life of approximately 37 years. Although it is still uncertain whether these sites will close in 2010, it remains likely, and it is clear that it is the intention that they will close then or as soon as practical thereafter. Under Financial Reporting Standard 11- "Impairment of Fixed Assets and Goodwill" – an impairment review is required to reduce the book value of these assets to the "value in use". This is not an exact calculation and requires assumptions and estimates to be made. Following discussions it was agreed that it would be appropriate to write down the value of these assets by some £6.3m, reducing the revaluation reserve by an equivalent amount.

- **Pensions**

Financial Reporting standard 17 sets out requirements for accounting and disclosure in respect of pension schemes. Pensions schemes can generally be categorised into:-

- ◆ Defined contribution schemes – whereby the employer’s obligation at any point in time is restricted to the amount of contributions payable.
- ◆ Defined benefits schemes – where the employee’s entitlement to a pension is dependent upon factors such as final salary, length of service etc. The employer’s obligation is therefore dependent on these factors, which cannot be readily determined.

All colleges in Scotland are members of the Scottish Teachers Superannuation Scheme (STSS) and the Local Government Pension Scheme (LGPS), which are both multi-employer defined benefit schemes. However, FRS17 allows employers who are members of multi-employer schemes, to account for these as defined contribution schemes (with additional disclosures) if "the employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis."

There is general agreement that the STSS cannot separately identify each employer member’s share of net assets and liabilities. The position is less clear with regard to the LGPS. Dundee College obtained an actuarial report in 2003 which did identify the college’s share of assets and liabilities. However on further enquiry of the Dundee City Council, who operate the scheme, it emerged that the share of the assets was calculated on a pro-rata basis to the liabilities, and that there was no intention to vary the contribution rate of each member to reflect their share of net liabilities. The college took the view therefore that this did not provide a “reasonable” basis and accounted for the scheme on a defined contribution basis. We have reviewed the evidence and made enquiries of Dundee Council and concluded that the adopted accounting treatment is appropriate. This is however, far from satisfactory in that the clear intention of the reporting standard (i.e. to disclose all liabilities) is not being fulfilled We would recommend that discussions with those who run the scheme continue with a view to reaching a situation where a reasonable estimate of assets and liabilities can be produced and incorporated into the accounts. We have included this recommendation in our action plan.

Each of these issues was identified as risks in our original audit plan. This plan was revisited on receipt of the draft accounts, and no further significant risks were identified. The other risk areas identified in our plan were satisfactorily dealt with as follows:

<b>Issue</b>	<b>Audit risks</b>	<b>Planned audit approach</b>	<b>Outcome</b>
<b>Recognition of Funding Council Income</b>			
The audit of 2006/07 student activity data by Henderson Loggie may result in adjustments to the SUMS which may take the College below 97% threshold and leave them subject to clawback of these funds.	<i>Recurrent grant income may be overstated in the accounts.</i>	<i>Reconciliation to year end remittance advice from SFC and review the outcome of the student activity data audit.</i>	<i>Awaiting internal audit report</i>
<b>ESF income</b>			
The College receives around £2m of ESF funding per year.  The 2005/06 financial statements included provisions for items that the College had claimed within the bid but that the audits felt were not permitted by the terms.	<i>The audits of these grant claims may lead to funds being clawed back by the European Commission.</i>  <i>Income from ESF projects may be overstated in the accounts.</i>	<i>Review of any audits of these projects carried out to date. For a sample of projects not audited as still in progress we will perform use of funds testing to ensure that the expenditure is in line with the terms of the grant.</i>	<i>Satisfactory</i>
<b>Corporate Governance</b>			
Full compliance with corporate governance as set out by Audit Scotland.	<i>There is inadequate evidence available to support the disclosures within the financial statements</i>	<i>We will review internal audit work in this area.</i>  <i>We will review the College's corporate governance arrangements to ensure that the minimum required evidence is available.</i>	<i>Awaiting internal audit annual report</i>

**ADJUSTED AND UNADJUSTED ERRORS**

**4.7 Actual Audit Adjustments**

The following adjustments were processed during the course of our audit.

	<i>£'000</i>
<b>Surplus / (Deficit) per accounts presented for audit</b>	1,954
<b><i>Adjustments:</i></b>	
Provision for legal fees (note )	(100)
Additional depreciation	(572)
Impairment	(6,278)
<b>Surplus / (Deficit) per final accounts</b>	<b>(4,996)</b>

#### **4.8 Potential Audit Adjustments**

There were no unadjusted errors arising from our audit.

#### **4.9 Accounting and financial control systems**

The College produced high quality draft financial statements for our audit. This continues to reflect well on the professionalism of the finance staff and their commitment to maintaining robust financial systems.

We found that all aspects of the College's financial systems that were reviewed to be well controlled, providing a good basis for the preparation of accounts.

- There were no matters of weakness identified during the audit that we wish to draw to your attention.

#### **4.10 Regularity audit**

- We have issued an unqualified regularity opinion and there are no significant issues that we wish to draw to the Board's attention.

## **5 CORPORATE GOVERNANCE**

**5.1 *Corporate Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. The respective responsibilities of the Dundee College and Tenon Audit are summarised in Appendix 2. This section of our report comments on the main aspects of our work, and highlights particular issues which arose.***

### **5.2 Statement on Corporate Governance**

The College have included in their financial statements, a statement on Corporate Governance. The statement clearly sets out the College's arrangements under each aspect of the code, and is a valuable enhancement of public accountability.

Although we are not required to form an opinion on the adequacy and effectiveness of the College's Code of Corporate Governance, we are required to report where a statement does not comply with the requirements of SORP or other guidance, or if it is misleading or inconsistent with other information of which we are aware.

In our opinion the statement is not misleading or inconsistent with other information which we are aware of from our other audit work.

### **5.3 Risk Management**

Although the term "Risk Management" has become relatively common recently, the underlying principles – of identifying and assessing risks and taking action to minimise their occurrence and impact, are well established. The College's Committee structure, Financial Regulations, and Internal Audit functions are all examples of policies and procedures which address potential risks. However, it is now generally recognised that this process needs to become explicitly established as part of a management culture, and requires the implementation of consistent best practice through formal policies and procedures. The College commissioned a Strategic risk report from consultants in March 2006 which produced a risk management strategy and risk register.

### **5.4 Internal Audit**

We adopt a managed approach in planning our audit work at your College. This means that we work closely with Internal Audit and place formal reliance on their work. This avoids duplication of effort and means that we can both direct our resources where they are most needed.

Our relationship with Internal Audit is governed by the International Auditing Standard ISA610 "Considering the work of Internal Audit".

It is the responsibility of management to determine the extent of the internal control system required. Internal Audit is an important element of the internal control system. Henderson. Loggie C.A. provide the colleges internal audit function.

Wherever possible we use the work of the internal auditor to assist us in our assessment of the effectiveness of the internal controls in the College's main financial systems. We review internal audit reports and use the work of the internal auditor to plan our work and to inform our own risk assessment. However, to enable us to rely on the work of Internal Audit, we need to be satisfied that the audit work has been properly planned, controlled, performed, recorded and reviewed in accordance with the Internal Audit Standards and ISA 610.

We are pleased to confirm that we were able to derive the planned assurance in the areas examined and that the Internal Audit Service was carried out generally in accordance with the SFC Code of Practice.

In 2006/07 we placed reliance on assignments carried out by Internal Audit in the following areas:-

- SUMS audit and audit of FES returns
- Staffing issues (Payroll)

## **5.5 Systems of Internal Control**

The respective responsibilities of the College and ourselves as auditors and a summary of the systems covered during the year, are set out at Appendix 2.

Through the results of our own testing, and our reliance on areas examined by Internal Audit, we have concluded that the fundamental key financial systems of the College are operating satisfactorily.



## **5.6 Other Governance responsibilities**

### *Prevention and Detection of Fraud and Irregularities*

The respective responsibilities of the College and ourselves as auditors are set out in Appendix 2. During the year, we have reviewed the overall arrangements through our review of systems.

The College also has in place Fraud prevention policy and a complaints procedure.

In overall terms, we are satisfied that these arrangements are adequate.

### *Legality/Propriety*

Again, the respective responsibilities of the College and ourselves as auditors are set out in Appendix 2.

Our review of the College's transactions and arrangements has revealed no areas of concern.

### *Standards of Conduct, Integrity and Openness*

We have reviewed the College's arrangements which include:-

- A Register of Members' Interests
- Information regarding their appointment to outside bodies and organisations is disclosed in the financial statements.
- Freedom of information publication scheme

## **6 ACTION PLAN**

### **6.1 Observations on the College's Regularity Framework and Overall Control Environment**

	<b>Subject</b>	<b>Grade</b>
<b>1</b>	We would recommend that discussions with those who run the LGPS scheme continue with a view to reaching a situation where a reasonable estimate of assets and liabilities can be produced and incorporated into the accounts.	<b>2</b>

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

Grade 1: We believe these observations are particularly significant and that management should take prompt action.

Grade 2: These observations are significant but of a less urgent nature than Grade 1 observations. We believe that action needs to be taken within the agreed timescale.

Grade 3: Observations that merit attention but are less significant than Grade 1 and 2 observations.

Issues noted

1	Pensions accounting		<b>Grade 2</b>
<i>Issue</i>			
The actuary for the LGPS is unable to provide an assessment of the underlying assets and liabilities on a reasonable basis. As a result the college are unable to fully comply with the accounting and disclosure requirements of FRS17.			
<i>Recommendation</i>		<i>Management response</i>	<i>Action by whom</i>
Discussions with those who run the scheme should continue with a view to reaching a situation where a reasonable estimate of assets and liabilities can be produced and incorporated into the accounts.		<p>The College cannot control this matter – but it will continue to monitor the situation and, if the opportunity arises, review its position.</p> <p>It is questionable however what influence the College may have, as a minority stakeholder, in getting a satisfactory estimate from LGPS.</p> <p>It should be noted that the position, the College is in, is in keeping with current SFC guidance</p>	<p><i>G. Westwater</i></p> <p><i>Deadline</i></p> <p><i>Ongoing</i></p>

**Dundee College**

**Annual Report for the Year Ended 31 July 2007**

**Annexes for Management Information**

**Tenon audit**

**Independent auditor's report to the members of the Board of Management of Dundee College, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of Dundee College for the year ended 31 July 2007 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

**Respective responsibilities of the Board of Management, Principal and auditor**

The Board of Management and the Principal are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Board of Management's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the Report of the Board of Management is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for my audit. We also report whether in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Board of Management and Statement of the Board of Management's Responsibilities for the Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

#### *Financial statements*

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2007 and of its deficit, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

*Regularity*

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

*Tenon Audit Limited*

*10 Ardross Street,  
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IV3 5NS.*

Date

## **Our respective responsibilities**

### **Financial Statements**

It is the responsibility of the College to:-

- *Ensure the regularity of transactions by putting in place systems of internal control.*
- *Maintain proper accounting records.*
- *Prepare financial statements which present a true and fair view of the financial position of the College and its expenditure and income in accordance with the SORP.*

We are required to give an opinion on:-

- *Whether the accounts present a true and fair view of the financial position of the College and its expenditure and income for the period.*
- *Whether the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.*

*In carrying out this responsibility we provide reasonable assurance that, subject to the concept of materiality, the financial statements:-*

- *Are free from material misstatements.*
- *Comply with the statutory and other requirements applicable.*
- *Comply with relevant requirements for accounting presentation and disclosure.*

### **Corporate Governance**

*Corporate Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation.*

*Three fundamental principles apply:-*

- *Openness*
- *Integrity*
- *Accountability*

*We have a responsibility to review and, where appropriate, report findings on the College's corporate governance arrangements as they relate to:-*

- *The College's review of its systems of internal control including its reporting arrangements.*
- *The prevention and detection of fraud and irregularity.*
- *Standards of conduct and arrangements in relation to the prevention and detection of corruption.*
- *The financial position of the College.*

*Our work has focused upon our review of the College's Risk Management arrangements, systems of internal control, Internal Audit, consideration of the controls to prevent and detect fraud and corruption, and the audit of the final accounts.*

*In giving an opinion on the accounts our audit strategy requires us to ensure that the fundamental financial systems are adequately covered each year. Whenever possible, to avoid duplication of effort, we seek to rely on the work of Internal Audit.*

*However, our work cannot cover every financial activity and accounting procedure. We plan and perform our audit to give reasonable assurance that the financial*



statements are free from material misstatement and that they comply with statutory and other requirements.

### **Risk Management**

#### *The College's Responsibility*

*It is the responsibility of the College to identify and address its operational and financial risks and to develop and implement proper arrangements to manage them, including adequate and effective systems of Internal Control.*

#### *The Role of Tenon Audit Limited*

*In planning our audit, we consider and assess your risk management arrangements as part of our assessment of audit risk. This helps us to tailor our audit plans so that they are both appropriate to your circumstances and directed to the areas of greatest risk.*

### **Systems of Internal Control**

#### *The College's Responsibility*

*The College has a responsibility to develop and implement systems of internal control, including risk management, and systems of financial, operational and compliance controls.*

*Three components of a system of risk management are:-*

- *Timely identification of key business risks.*
- *Consideration of the likelihood of the risks crystallising and the significance of the consequential financial or other impact.*
- *Establishment of priorities for the allocation of resources to control risk and the setting and communicating of key objectives.*

*The monitoring of controls provides assurance that managers are assessing the existence of risk and the effectiveness of controls over the risks. The internal audit arrangements form an important part of management's monitoring and review of internal control arrangements, and in ensuring that appropriate monitoring of risks and controls takes place.*

#### *The role of Tenon Audit Limited*

*In broad terms the external auditor is expected to assess the internal controls in the College's main financial systems and report on any significant control weaknesses identified. This does not absolve management from its responsibility for the maintenance of an adequate internal control system.*

### **Prevention and Detection of Fraud and Irregularities**

#### *The College's Responsibility*

*It is the responsibility of the College to establish arrangements to prevent and detect fraud and other irregularity. It therefore needs to put in place proper arrangements for:-*

- *Developing, promoting and monitoring compliance with standing orders and financial instructions.*
- *Developing and implementing strategies to prevent and detect fraud and other irregularity.*
- *Receiving and investigating allegations of breaches of proper standards of financial conduct or of fraud and irregularity.*

*The Role of Tenon Audit Limited*

*External audit is required to review the adequacy of the measures taken by the College, to test compliance, and to draw the attention of management to any weaknesses or omissions.*

**Legality**

*The responsibility for ensuring the legality of all activities and transactions rests with the College.*

*The responsibility of the external auditor is to review the legality of the College's transactions and to be aware of the requirements of statutory provisions.*

**Standards of Conduct, Integrity and Openness**

*Propriety is concerned with the way in which public business should be conducted. It is concerned with fairness and integrity. It must be recognised that the public view of propriety is as much about perception as reality.*

*The College's Responsibility*

*It is the responsibility of the College to ensure that its affairs are managed in accordance with proper standards of conduct. It needs therefore to put in place proper arrangements for:-*

- Implementing and monitoring compliance with appropriate guidance on standards of conduct.*
- Expressing and promoting appropriate values and standards across the organisation.*
- Developing, promoting and monitoring compliance with Codes of Conduct that advise Members, Officers or Managers of their personal responsibilities and expected standards of behaviour.*
- Developing, promoting and monitoring compliance with standing orders and financial instructions.*

*The Role of Tenon Audit Limited*

*It is our role to consider whether the College has put in place adequate arrangements to maintain and promote proper standards of financial conduct and to prevent and detect corruption. We discharge this duty by reviewing and where appropriate examining evidence that is relevant to these arrangements.*

**Financial Position**

*The College's Responsibility*

*It is the responsibility of the College to conduct its affairs and put in place proper arrangements to ensure that the financial position is soundly based having regard to:-*

- Financial monitoring and reporting arrangements.*
- Compliance with statutory financial requirements and achievement of financial targets.*
- Levels of balances and reserves.*
- The impact of planned future policies and known or foreseeable future developments.*

*The Role of Tenon Audit Limited*

*It is our role to consider whether the College has established adequate arrangements. We are also required to have regard to going concern as part of the audit of the financial statements. In carrying out this responsibility we consider:-*

- Financial performance in the year.*
- Compliance with statutory financial requirements and financial targets.*
- Ability to meet known statutory and other financial obligations actual or contingent.*
- Responses to known developments which may have an impact on the College's financial position.*