

# **LEWS CASTLE** **COLLEGE**

**ANNUAL REPORT  
TO THE BOARD OF MANAGEMENT AND THE AUDITOR  
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR  
THE YEAR ENDED 31 JULY 2007**

**DECEMBER 2007**

**Wylie & Bisset  
CHARTERED ACCOUNTANTS  
168 Bath Street  
Glasgow**

<b>Date of commencement of Final Visit</b>	<b>29/10/2007</b>
<b>Date of Draft Report to College</b>	<b>20/11/2007</b>
<b>Date of Meeting re Draft Report</b>	<b>21/11/2007</b>
<b>Date of College Responses</b>	<b>28/11/2007</b>
<b>Date of Presentation of Report</b>	<b>3/12/2007</b>

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## **GLOSSARY OF TERMS**

Annual Report	-	Report
Lews Castle College	-	The College
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

## 1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Lews Castle College with effect from 1 August 2006 for a period of 5 years until 31 July 2011.
- 1.2 The Annual Report has been prepared following the conclusion of our audit of the financial statements of Lews Castle College for the year ended 31 July 2007.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in March 2007.
- 1.4 Paragraph 19 of the 'Code' states that the auditor's objectives are to:
  - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
  - Review and report on the College's corporate governance arrangements as they relate to:
    - The College's review of its systems of internal control
    - The prevention and detection of fraud and irregularity
    - Standards of conduct, and the prevention and detection of corruption
    - Its financial position, and
  - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 Our audit report on the financial statements for the year ended 31 July 2007 is unqualified.

- 1.8 The Annual Report covers the following areas as set out in the Code:
- a) Internal Controls and audit approach
  - b) Internal Audit
  - c) Corporate Governance
  - d) Value for Money
  - e) GMAP visits
  - f) Prevention and detection of fraud and irregularities
  - g) Management letter – 2006
  - h) Management letter – 2007
- 1.9 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10 Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

*Wylie + Bisset*

Wylie & Bisset

## **2. INTERNAL CONTROLS AND AUDIT APPROACH**

- 2.1 We have reviewed in the course of our audit the key elements of the College's systems of internal financial controls including the following areas;
- a) The College's medium and short term planning processes including budgets;
  - b) The College's review of key performance indicators, financial and management accounts;
  - c) The College's controls over income and expenditure;
  - d) The College's financial controls and procedures;
  - e) The input from the Audit Committee and the Finance Committee;
  - f) The College's internal audit service.
- 2.2 In carrying out our audit work we have taken into account the following:
- a) The Code of Audit Practice issued by Audit Scotland;
  - b) The Code of Audit Practice issued by SFC;
  - c) Guidance issued by Audit Scotland;
  - d) Guidance issued by SFC;
  - e) The College's internal control procedures;
  - f) The College's Corporate Governance procedures;
  - g) The College's approach to Value for Money;
  - h) The financial memorandum between SFC and the College.
- 2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:
- a) Reviewing previous financial statements;
  - b) Reviewing internal audit plans and reports;
  - c) Discussions with senior management and staff at the College;
  - d) Completing appropriate audit programmes;
  - e) Carrying out analytical review procedures;
  - f) Carrying out substantive and compliance audit tests on a judgemental basis;
  - g) Reviewing the minutes of the principal College committees.
- 2.4 Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 9 & 10.
- 2.5 The audit recommendations are included in the appropriate sections of this report.
- 2.6 The recommendations have been graded as either High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

### **3. FINANCIAL STATEMENTS**

- 3.1 The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.
- 3.2 The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

#### **AUDIT REPORT**

- 3.3 We are pleased to record that there are no qualifications in our audit report on the College's 2006/07 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

#### **FINANCIAL PERFORMANCE**

- 3.4 The income and expenditure account shows an operating surplus for the year of £107k (2006 - £89k). Excluding the movements in relation to the pension liability under FRS17 the income and expenditure account would show an operating surplus of £38k (2006 - £89k).
- 3.5 In 2006/07 the College forecast for an operating surplus of £37k through the College Financial Return. The College has currently budgeted for a £39k operating surplus in 2007/08.
- 3.6 The consolidated balance brought forward on the income and expenditure reserve as at 1 August 2006 was £947k in deficit. The balance on the income and expenditure reserve at 31 July 2007 is £909k in deficit.
- 3.7 In July 2007 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2005/06. In comparing the performance indicators it should be remembered that the college had its pension provision brought onto the balance sheet, which may skew the figures. The indicators relative to the College in 2005/06 are as follows:



### 3.8 PERFORMANCE INDICATORS

	2005/06 LEWIS CASTLE COLLEGE	2005/06 SECTOR AVERAGE
Operating Surplus as a % of income	1.6%	0.8%
The Reserves (designated reserves plus Income & Expenditure reserves) as a % total of income	(15.6%)	10.5%
Historical cost surplus as a % of income	1.8%	1.9%
The liquidity ratio (current assets: current liabilities)	1:1	1:3
The days cash to expenditure ratio	19	58
Unit cost of WSUM	283	216
WSUM's per FTE teaching staff	168	316
Staff costs as % of total expenditure	64%	65%
Premises cost as % of total expenditure	17%	10%
Total funding grant as a % of total income	66%	71%
Recurrent Grant as a % of total income	40%	61%
Total education Contracts and Tuition Fees as a % of total income	11%	16%
Total other income as a % of total income	23%	12%
European Income as a % of total income	1%	3.7%

- 3.9 In 2008 the SFC is due to publish comparisons of the financial performance of colleges based on 2006/07 PIs. The College is continuing to keep the inter-college comparisons produced by SFC under review.

### **SUBMISSION OF ACCOUNTS**

- 3.10 The accounts were submitted for audit on 29th October 2007. The accounts submitted for audit were complete. Working papers provided have generally been of a good standard and queries arising from the audit have all been resolved. Key staff members were readily available for consultation throughout the audit process.

### **ISSUES ARISING**

- 3.10 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance & Corporate Services. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.
- 3.11 **Accounting Policies:** In accordance with FRS18 the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts.
- 3.12 **Capital expenditure:** During the year ended 31 July 2007, the College expended £361k on capital expenditure
- 3.13 **FRS 17:** The college participates in the Highland Council Pension Scheme and this is treated as a defined benefit scheme. At 31 July 2007 the college had a pension asset of £133k (2006 a deficit of £203k).
- 3.14 **SSAP 24 Provision:** The college is accounting for SSAP 24 provision using an interest rate of 2.5% which is in line with SFC guidance.
- 3.15 **Basis of Preparation – Going Concern:** The College makes reference to the accumulated deficit within its accounting policies. This area should be reviewed on an annual basis to ensure the accounting policy note is still relevant.

## **4 INTERNAL AUDIT**

### **Objective and Approach**

- 4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2 The College's internal auditors for 2007 were CITB services.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2007 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2007 no internal audit reports were issued with the exception of the draft Internal Audit Annual Report.
- 4.5 The draft Internal Audit Annual Report concludes that the Internal Auditors are satisfied that sufficient internal audit work has been carried out to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of the College's internal control processes.

### **Opinion**

- 4.6 Given that only the draft Internal Audit Annual Report was available at the time of the audit we were unable to make an assessment of the adequacy of the Internal Audit function. Based on this we have not placed formal reliance on the work of Internal Audit, although we note that the draft Internal Audit Annual Report concludes that the Internal Auditors are satisfied that sufficient internal audit work has been carried out to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of the College's internal control processes.

## 5 CORPORATE GOVERNANCE

### **Objective and Approach**

- 5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was carried out using a bespoke checklist. We also reviewed the following:
- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2007;
  - b) The College's Corporate Governance strategy;
  - c) The minutes of meetings of key College committees issued during the year.

### **Opinion**

- 5.2 Based on our review the College appears to operate appropriate Corporate Governance procedures and management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff.

### **Recommendations**

- 5.3 There were four recommendations made in this area, these are noted in Section 10, Management Letter 2007.

## **6 VALUE FOR MONEY**

### **Objective and Approach**

- 6.1 We have reviewed the College's Value for Money systems including the following:
- a) The College's strategy in this area;
  - b) VFM studies carried out by the College's internal auditors.

### **Opinion**

- 6.2 Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources.

### **Recommendations**

- 6.3 There are no recommendations in this area.

## **7 GMAP VISITS**

- 7.1 The College has submitted one GMAP return during the year ended 31 July 2007. The return submitted was as follows:
- a) 29<sup>th</sup> June 2007 College Financial Return.
- 7.2 A meeting was held on 5<sup>th</sup> October 2007 to discuss college returns.
- 7.3 We recommend that any reports from future GMAP visits should be forwarded to us in order that they can be reviewed as part of our audit work.

## **8 PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES**

### **Objective and Approach**

- 8.1 The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures.
- 8.2 An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a bespoke checklist.
- 8.3 In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
- a) The monitoring and compliance with financial procedures;
  - b) The College's strategy to prevent and detect fraud and other irregularities;
  - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 8.4 We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

### **Opinion**

- 8.5 Overall we concluded that management takes fraud prevention and detection seriously and has reliable controls in place to ensure that potential areas for fraud are detected.

### **Recommendations**

- 8.6 There were no recommendations made in this area.

## 9 MANAGEMENT LETTER – 2006

9.1 The management letter for the year ended 31 July 2006 was issued by KPMG following the audit for that year.

9.2 There were no recommendations graded as “High” priority in this area.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
1. A number of recommendations reported during 2004-05 in our report 'systems and controls review: high level controls' (17 May 2005) have not been fully implemented. There is a risk that fraud and error is not identified and rectified in a timely manner.	Management should ensure that they implement a process to monitor action against external and internal audit recommendations. In line with good practice this should be reported to the audit committee on a regular basis.		Will review all audit recommendations (internal and external) as part of induction process for new internal audit arrangements.  <b>Updated Position</b> A process to monitor external and internal audit recommendations will be put in place.	Director of finance & corporate services, Jan/Feb 2007
2. Purchase requisition forms are not completed for the ordering of all goods and services. There is a risk that goods and services are ordered without appropriate authorisation.	All orders for goods and services should be made using a standard purchase requisition form.		Review impact of financial procedures issued in 2006 and check compliance.  <b>Updated position</b> This was tested in 2007 audit and no problems were noted.	Director of finance & corporate services, Jan/Feb 2007
3. On a periodic basis class lists from the student records are reconciled to income records to ensure fees are received from all students, but this process is not formally documented. There is a risk that fees are not received from all students.	The process of reconciling student records to the records maintained by finance should be formally documented and reviewed.		New post supporting course leaders taking responsibility for fees. Processes being streamlined to ensure effective fee collection.  <b>Updated position</b> Student fees tested in 2007 audit and no problems were noted.	Director of finance & corporate services, Jan/Feb 2007
4. Nursery fee forms requesting the raising of an invoice are not signed or dated. There is a risk that invoices are raised without the correct authorisation.	Nursery fee forms requesting the raising of an invoice should be signed and dated by the person requesting the raising of the invoice.		Instruction to be issued to ensure compliance with procedure.  <b>Updated position</b> Nursery fees tested in 2007 audit and no problems were noted.	Director of finance & corporate services, Dec 2006



## 10 MANAGEMENT LETTER – 2007

10.1 The recommendations following the audit for the year ended 31 July 2007 are set out below.

10.2 The recommendations have been graded as follows:

**High Priority** Recommendations addressing significant control weaknesses which should be implemented immediately.

**Medium Priority** Recommendations addressing significant control weaknesses which should be addressed in the medium term.

**Low Priority** Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the college matches current good practice.

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p><b>1. Sales invoices</b>                      The Sales invoices indicate the relevant sales ledger account which an invoice is to be posted to but does not indicate which nominal account. This results in a poor audit trail.</p>	<p>We recommend all sales invoices include the nominal account code to which the invoice has been posted.</p>	Low	<p>Will investigate whether there is a suitable field in the system to record the nominal account.</p>	<p>Director of Finance &amp; Corporate Services                      March 2008</p>
<p><b>2. Nursery fees</b>                      Nursery fee forms requesting the raising of an invoice are authorised by a typed name.</p>	<p>As best practice we recommend that invoice request forms regarding nursery fees are manually signed as evidence of authorisation.</p>	Medium	<p>Agreed</p>	<p>Director of Finance &amp; Corporate Services                      Immediately</p>
<p><b>3. Bank reconciliation</b>                      Bank reconciliations are prepared on a regular basis; however, they are signed as prepared by but not signed as reviewed and authorised.</p>	<p>We recommend that bank reconciliations are signed by the person who prepares the reconciliations, and signed by the person, who reviews and authorises them.</p>	Medium	<p>Agreed</p>	<p>New process now in place.</p>
<p><b>4. Payroll procedures</b>                      Payroll input procedures have not been updated since July 2002.</p>	<p>We recommend that the procedures are reviewed to ensure any necessary changes are made and to update the names of members of staff who have left.</p>	Medium	<p>Agreed</p>	<p>Director of Finance &amp; Corporate Services                      March 2008</p>

December 2007

<p><b>5. Performance evaluation</b>                  There is no formal performance evaluation in place for board members/chairman.</p>	<p>We recommend that the college implement a formal performance evaluation for board members/chairman.</p>	<p>Medium</p>	<p>Agreed. Will form part of selection of new Chair</p>	<p>Board                  January 2008</p>
<p><b>6. Appointment of chairman</b>                  There is no formal process for the appointment of a new chairman to the board.</p>	<p>We understand that the college will be looking into this in the near future as the term of the existing chairman will end in 2008. We recommend that the college look to implement a formal process as soon as possible.</p>	<p>Medium</p>	<p>Process in Place</p>	<p>Process in Place</p>
<p><b>7. Board members</b>                  There is no expected time commitment included in the appointment letter/process of board members.</p>	<p>We recommend that a realistic time commitment is included in the appointment process of new board members.</p>	<p>Low</p>	<p>Will be reviewed in context of recruiting new members</p>	<p>Board                  January 2008</p>
<p><b>8. Audit Committee</b>                  The terms of reference of the audit committee do not state that their role includes "reviewing and monitoring the external auditors independence and objectivity".</p>	<p>We recommend that the college updates the terms of reference of the audit committee to include this role.</p>	<p>Low</p>	<p>Terms of Reference will be updated</p>	<p>Board                  March 2008</p>
<p><b>9. Fixed Assets</b>                  The college does not keep a register of fixed assets which reconciles to the financial statements.</p>	<p>We recommend that the college maintains a fixed asset register for all assets held.</p>	<p>Medium</p>	<p>Agreed</p>	<p>Director of Finance &amp; Corporate Services                  June 2008</p>
<p><b>10. Petty cash</b>                  The college has petty cash floats at the main campus and its 2 outreach centres; however, no reconciliations are carried out.</p>	<p>We recommend that petty cash reconciliations are carried out on a monthly basis for each of the petty cash floats.</p>	<p>Medium</p>	<p>Agreed</p>	<p>Now in place</p>
<p><b>11. Out Dated Cheque</b>                  There is an out dated cheque written in March, which has not been written off at September.</p>	<p>We recommend that cheques over six months old are written back.</p>	<p>Low</p>	<p>Agreed. Process will now take place monthly.</p>	<p>Now in place</p>

<p><b>12. Purchase invoices</b>                  Purchase invoices under query are not posted to the purchase ledger, as it is the colleges' policy to only include items once they have been approved for payment.</p>	<p>We recommend that purchase invoices are posted to the purchase ledger when received to ensure all invoices are logged onto the system.</p>	<p>Medium</p>	<p>Agreed. Will review process and implement practical solution</p>	<p>Director of Finance &amp; Corporate Services                  March 2008</p>
<p><b>13. Projects</b>                  There are two projects run by the college for which the income and expenditure is recorded through balance sheet codes resulting in the income and expenditure not being recorded through the profit and loss statement.</p>	<p>We recommend that income and expenditure is recognised separately in the profit and loss statement and not netted off in balance sheet codes.</p>	<p>High</p>	<p>Agreed</p>	<p>Director of Finance &amp; Corporate Services                  March 2008</p>
<p><b>14. Investments</b>                  The college has an investment in Lews Castle College Trading Company; however, the investment is not included in the college's trial balance or accounting system.</p>	<p>We recommend that the shares are included in the colleges' accounting system to recognise this investment.</p>	<p>Low</p>	<p>Agreed</p>	<p>Director of Finance &amp; Corporate Services                  March 2008</p>
<p><b>15. Payroll reconciliation</b>                  In the payroll reconciliation, a break down of the differences between the payroll costs and the costs per accounts could not be provided. When differences have been identified no detail is retained to explain the figures.</p>	<p>We recommend that as the payroll reconciliation is being prepared detail is retained to show the break down of the differences found.</p>	<p>Medium</p>	<p>Agreed</p>	<p>Director of Finance &amp; Corporate Services                  July 2008</p>
<p><b>16. Student Support Fund</b>                  It was noted that Student Support Fund bank accounts are not held within the main ledger.</p>	<p>We recommend that Student Support Funds bank accounts should be maintained within the main ledger.</p>	<p>Medium</p>	<p>Treatment of Student Funds will be reviewed and appropriate action taken</p>	<p>Director of Finance &amp; Corporate Services                  July 2008</p>

## 11 EMERGING ISSUES

### Charitable Status

As a result of the pilot review of the charitable status of John Wheatley College in Glasgow completed in May 2007, the charitable status of the College is in doubt. The Office of the Scottish Charity Regulator, OSCR, concluded that John Wheatley College did not meet the charity test set out in the Charity & Trustee Investment (Scotland) Act 2005 because its constitution allows Scottish Ministers to exert control over the College. In addition, the constitution also permitted distribution of charitable funds for non-charitable purposes, which contravenes the Act. OSCR have given John Wheatley College two years to address the situation.

In reality this is not a situation that John Wheatley College can rectify. The solution must come from the Scottish Government. Our current understanding is that Ministers will exempt Scotland's Colleges from the relevant part of the charity test. The legislation already contains a provision by which they can do this.

In the event that the situation is not resolved all Colleges would potentially lose their charitable status, which could result in the loss of VAT exemptions and payment of Corporation tax on surpluses. Based on current information the likelihood of this is extremely remote and accordingly no reference has been made to it in the financial statements.

### Pension and FRS 17

Certain retirement benefits to employees of the College are provided by the Teachers' Superannuation Scheme (Scotland) (STSS). This is a defined benefit scheme. Due to the multiemployer nature of this scheme it has not been possible to identify the shares of assets and liabilities applicable to the College, hence the pension cost in the financial statements has been accounted for on a defined contribution basis as permitted by FRS 17.

It is likely that in a future accounting period, this scheme will have to be disclosed as a defined benefit scheme which will require incorporation of a related pension scheme asset or liability in the balance sheet of the College.

Currently the Highland Council Pension Scheme has been accounted for as a defined benefit scheme.

### Statement of Recommended Practice (SORP)

The Statement of Recommended Practice on Accounting in Higher and Further Education Institutions has been updated at July 2007 for accounting periods ending 31 July 2008 onward.

## **APPENDIX A**

### **STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT**

**STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES**

The members of the Board of Management of the College are responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and are required to present audited financial statements for each year.

Within the terms and conditions of the Financial Memorandum agreed between The Scottish Funding Council (SFC) and the Board of Management of the College, the Board through the Principal as Accounting Officer, is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the College and the surplus or deficit for that period.

In preparing the accounts the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College, and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992 together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by SFC, and the statement of Recommended Practice, Accounting for Further and Higher Education. It has general responsibility for taking such steps as are reasonably open to it to safeguard assets of the College and to prevent and detect fraud and other irregularities.

Members of the Board are responsible for ensuring that funds from SFC are used in accordance with the Financial Memorandum with SFC and any conditions which SFC may from time to time prescribe. Members of the Board must ensure that there are appropriate financial and management controls in place to safeguard public funds and ensure that they are used only in accordance with the conditions under which they have been made available. In addition, members of the Board are responsible for securing the economic, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds by the Board are not put at risk.

By order of the Board of Management



.....  
**Kenneth Murray**  
Chairman of the Board of Management

**APPENDIX B**

**INDEPENDENT AUDITORS REPORT**

## **Independent auditors' report to the members of the Board of Management of Lews Castle College, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of Lews Castle 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, Accountable Officer and Auditor**

The Board of Management and Accountable Officer 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 Board and Accountable Officer'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 Foreword 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 our 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<sup>st</sup> 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. 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 surplus, 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<sup>st</sup> 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.

*Wylie & Bisset*

Wylie & Bisset  
Wylie & Bisset  
Chartered Accountants and Registered Auditors  
168 Bath Street  
Glasgow G2 4TP

10 December 2007  
Date