SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

West Lothian College

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

31 January 2008

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1 Summary

Finance

- Our audit opinion on the financial statements and the regularity of transactions is unqualified.
- The College terminated its PFI agreement in April 2007 at a cost of £27.7 million. Prior to entering into this transaction, the Scottish Funding Council, in conjunction with the College, undertook a detailed options appraisal which concluded that the termination option offered the best value for money in the long term.
- The financial statements show that the College has incurred a deficit of £5,200,000 for the year, due to the revenue impact of the early termination of the PFI agreement. Excluding this exceptional item, the financial statements show a surplus before the PFI termination of £340,000.
- The College has changed its accounting policy for early retirement provisions, which has resulted in a prior year adjustment. The previously stated 2005/06 surplus of £181,000 has been restated to show a deficit of £945,000.
- The complexities surrounding the accounting treatment of the PFI buy out and related fixed asset acquisition, together with corrections to the previous accounting treatment for the early retirement provision have made the 2006/07 accounts preparation and audit process extremely challenging. A number of material adjustments were made to the accounts during the audit and this resulted in the agreed accounts and audit timetable not being achieved. However the final deadline of 31 December 2007 for submitting accounts to the Scottish Funding Council (SFC) was achieved.

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 from 2007/08. We have agreed with the College that it will review its current corporate governance arrangements against the 2006 Code.
- We have identified no significant weaknesses in the course of our audit in relation to the College's normal governance arrangements, including those for risk management.

Conclusion

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 prepared for the sole use of West Lothian College, the Auditor General for Scotland and Audit Scotland. We would like to thank all members of College management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff **31 January 2008**

2 Introduction

2.1 Audit Appointments

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 auditors to Scotland's FE Colleges and sets the terms of their appointment.

The Auditor General for Scotland has appointed Scott-Moncrieff as external auditor of West Lothian College ('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 risk to the College. The key audit issues identified for the 2006/07 audit were summarised in our external audit plan previously presented to the Audit Committee. These audit issues were:

- Termination of PFI contract (see section 3.5);
- Early retirement provision (see section 3.6).

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 headings of finance and governance. 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 under the headings of Finance and Governance. The action plan in section 5 details the recommendations we have made.

3 Finance

3.1 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;
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers and the Financial Memorandum with the Scottish Funding Council. This is referred to as the regularity opinion.

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

3.2 Accounts Direction

The College was required, in preparing its annual accounts, to comply with directions given by the SFC. We are pleased to confirm that the College's annual accounts for 2006/07 comply fully with the Accounts Direction issued by SFC.

3.3 Statement of Recommended Practice – SORP 2003

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. The current SORP was issued in 2003.

We are pleased to report that the 2006/07 annual accounts of the College comply with the FE/HE SORP 2003 in all material respects.

3.3.1 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 Colleges 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 Governors. To minimise disruption during the year end audit process, we recommend that the College prepares its OFR well in advance of the 2007/08 accounts preparation process. **See action plan 5.2.2.**

3.4 Auditors' report – unqualified opinion

We are required to give an opinion as to whether the financial statements present a true and fair view of the financial position of the College at 31 July 2007 and of its expenditure and income 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 are pleased to report that we have issued an unqualified audit opinion on the financial statements and on the regularity of transactions.

The main risk area affecting both our opinion on the financial statement and our regularity opinion was the audit of the PFI termination and this is discussed in more detail below.

3.5 Exceptional item - Termination of PFI contract

The College relocated from its Bathgate campus to its existing campus in Livingston in 2001. The Livingston campus was funded through the Private Finance Initiative (PFI).

With approval from the SFC, the College terminated the PFI contract in April 2007, paying £27.7 million to the PFI provider. Land and buildings, subsequently valued at £18.158 million, passed to the College as part of the termination agreement. The College received a capital grant from the SFC of £22.16 million as well as a repayable advance of £5.54 million to fund the termination payment.

3.5.1 Accounting for the PFI termination

The PFI termination is disclosed in Note 11 to the accounts. The College valued the campus land and buildings transferred as part of the PFI termination at £18.158 million and this has been shown as additions in Note 15 – Tangible Fixed Assets. The difference between the cost of terminating the agreement (£27,700,000) and the value of assets transferred to the College (£18,158,000) is treated as a revenue cost in 2006/07. SFC grant funding of £22.16 million was received for this transaction. £18,158,000 of this grant has been accounted for as deferred capital grants to match the value of the assets transferred. The remainder (£4,002) has been released to income to offset the revenue cost.

Cost of termination	**£000s**
Total cost – payment to PFI provider	27,700
Value of assets transferred	(18,158)
Revenue cost before release of grant	9,542
SFC grant released to income (see below)	(4,002)
Net revenue cost of termination	**5,540**

As noted above, the College received grant funding totalling £22.16 million and a loan of £5.54 million from the SFC to cover the costs of the termination. The 'Analysis of Cost of PFI Voluntary Agreed Termination' table in Note 11 shows that the College has accounted for the £27.7 million funding as follows:

SFC funding for PFI termination	**£000s**	**£000s**
Deferred capital grants – Note 27	18,158	
SFC grant released in year	4,002	
Total SFC grant		22,160
SFC loan – Note 18		5,540
TOTAL		**27,700**

3.5.2 Value for money

Scottish Ministers' guidance requires the College to obtain value for money from its expenditure. As noted in section 3.1, we are required to express an opinion on whether the expenditure and income shown in the financial statements has been incurred and applied in accordance with applicable enactments and guidance by Scottish Ministers. Therefore we have a responsibility to consider whether the College has obtained value for money from the PFI termination.

The College's termination of the PFI agreement in April 2007 is the culmination of an extended process of option appraisal and subsequent negotiation. The options considered in the final appraisal were:

- Continuing with the PFI provider,
- Prepayment of the unitary charge (with flexibility),
- Termination.

The SFC commissioned Grant Thornton to create a financial model of the various options. The initial model showed that the termination option was the option that offered best value for money. Subsequent to the negotiations with the PFI provider, the model was re-run on the final termination cost and was shown to be clearly the best option in terms of value for money.

3.5.3 Audit of PFI termination

Scottish Ministers directed the Scottish Funding Council to ensure that the termination option offered the best value for public money. All of the supporting documentation relating to the final value for money assessment was held by the Scottish Funding Council as the SFC had commissioned the financial analysis of the termination options. As a result, we were unable to complete our audit work on the PFI termination using the information held by the College without recourse to the Scottish Funding Council.

We received the supporting documentation and related explanations from the Scottish Funding Council prior to the 31 December deadline for signing off the College's financial statements. In our opinion, the process followed was appropriate and adequate to ensure that this transaction offered best value for public money.

3.6 Early retirement provision

The College has previously offered early retirement to staff. The College makes monthly payments to the pension fund to cover shortfalls arising from the decision to grant early access to retirement benefits.

The College recognises a liability for the future payments in relation to these early retirement benefits.

During 2005/06, the early retirement liability increased by just over £1m. Also in 2005/06, *Financial Reporting Standard 17 – Retirement Benefits* (FRS 17) became applicable, at which time the College incorporated the early retirement liability within the overall pension liability. The £1m increase in the liability was therefore accounted for in the same way as increases in the general pension provision – i.e as a movement in reserves rather than a charge to the income and expenditure account.

3.6.1 Change in accounting policy - prior year adjustment

For the 2006/07 financial statements, the College has recognised that, whilst the early retirement liabilities are similar in nature to the general pension liabilities, they should be accounted for separately as the liabilities arise through an employer's decision to terminate an employee's contract before retirement age and not in exchange for services received. The College has therefore amended its accounting policy for the early retirement liability so that increases and decreases in the liability are accounted for through the income and expenditure account.

Financial Reporting Standard 3 – Reporting Financial Reporting (FRS 3) requires changes in accounting policy to be accounted for as a prior year adjustment . As a result, the College's 2005/06 Income and Expenditure Account and Balance Sheet have been restated in the College's 2006/07 annual accounts.

The effect of this restatement on the 2005/06 Income and Expenditure Account was:

Restatement of 2005/06 Income and Expenditure Accounts	£000s
Surplus as previously stated	**181**
Revaluation of early retirement provision	(1,126)
Deficit as restated	**(945)**

£424,000 of the increase in the liability was due to the differences in the College's valuation of its early retirement provision, using the SFC tables, as at 31 July 2005 (£2,501,000) and the actuary's valuation as at 31 July 2005 (£2,935,000). In 2006/07 the College elected to use the actuarial valuation rather than the SFC tables. After consulting with the LPF actuaries, the College has concluded that the remaining increase is due to change in actuarial assumptions.

3.7 Leasehold dilapidations

The College was previously leasing property. Under the lease agreement, the College had an obligation to make good any dilapidations incurred during the lease period. The College ended the lease agreement in October 2006. A "provision" had been created in the draft accounts to meet these costs and this was shown within designated reserves in the balance sheet.

This accounting treatment of recognising liabilities within reserves does not comply with *Financial Reporting Standard 12 – Provisions, Contingent Liabilities and Contingent Assets* (FRS 12). The College has amended its accounts to show a provision for dilapidations within the "provision for liabilities and charges" section of the Balance Sheet.

3.8 Financial Standing

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 arrangements for financial planning, budgetary control and financial reporting.

3.8.1 Financial position and performance

The financial statements show that the College has incurred a deficit of £5,200,000 for the year to 31 July 2007. The deficit is entirely due to the revenue costs of the early termination of the College's PFI agreement.

The financial statements show a restated deficit of £945,000 for 2005/06. This is principally due to the movement in the early retirement provision in 2005/06. The table below shows the College's underlying financial performance excluding the PFI buy-out and the movement in the early retirement provision and pension liabilities.

(Deficit) / Surplus	***2006/07 £000***	***2005/06 £000***
(Deficit) / Surplus on continuing activities after depreciation of assets at valuation and tax	(5,200)	(945)
Excluding:		
Exceptional item – Net costs of PFI voluntary agreed termination	(5,540)	
Net revenue impact of movements in the early retirement provision	85	(1,126)
Net revenue impact of the pension adjustments	(25)	(63)
Adjusted surplus	**280**	**244**

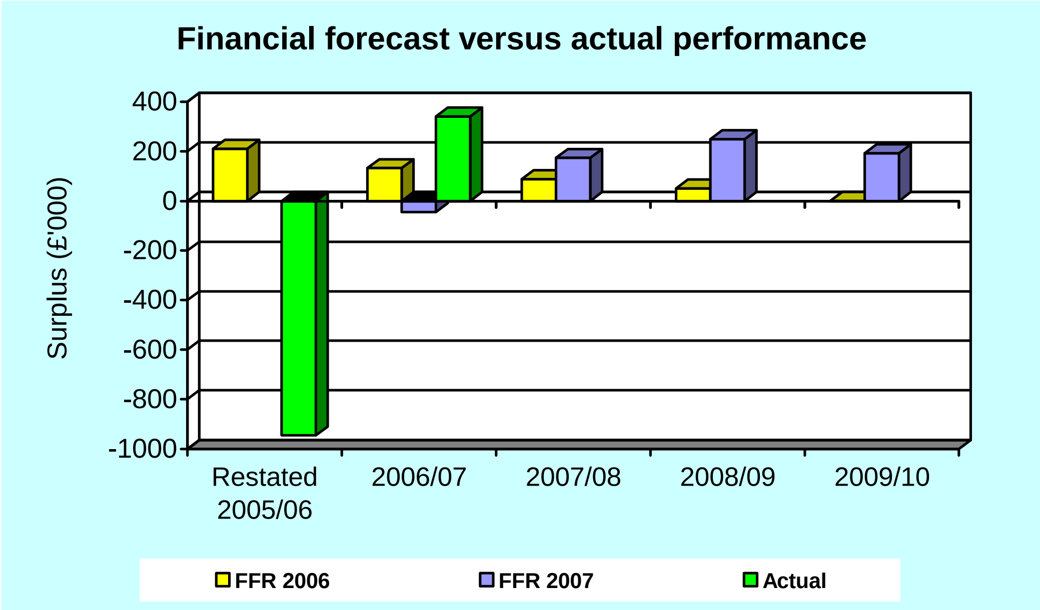
The College's FFR for 2006/07 showed a forecast deficit of £44,000.

3.8.2 Financial planning

Budgets are devised prior to the start of the year and are presented to the Finance and General Purposes Committee, who in turn review the information and recommend to the Board for approval. Management accounts are discussed by the Senior Management Team on a regular basis and presented to the Finance and General Purposes Committee and Board meetings for review.

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. The surpluses reported are based on the surplus on operations prior to exceptional items, transfers between reserves and movements in early retirement and pension liabilities.



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

3.9 Fixed asset register

The College has used an excel spreadsheet based fixed asset register for a number of years. This register is used to record assets purchased by the College and is used to calculate the College's depreciation charges. We had difficulty reconciling between the College's fixed asset register and its nominal ledger. We recommend that the College regularly reconcile its fixed asset register to the nominal ledger. **See action plan 5.2.5.**

As part of the PFI buy-out, the ownership of the College buildings transferred to the College. The College has detailed records of what comprises these College buildings. The assets comprise the actual physical building as well as fixture and fittings. Buildings and fixture and fittings are normally depreciated at different rates reflecting the different useful lives. The College has not allocated the value of the buildings between the various components and we recommend that it does so. **See action plan 5.2.4.**

3.10 Estates Strategy

The Scottish Funding Council issued revised estate strategy guidance during the year. The revised guidance reflects the Funding Council's Corporate Plan (Priority Action 68): "*We will establish the evidence base to allow the Council to consider how and when Colleges …could be provided with a sustainable funding stream, sufficient to allow them to renew and replace their buildings on an ongoing basis*." This action implies a move away from the funding of large, individual, bid-based projects to more strategic asset-management funding.

The SFC commissioned Currie and Brown in 2006 to review Colleges' continuing investment needs. They recommended an approach to the remaining investment need that is based on formula funding and enhancing Colleges' planning through greater certainty of funding. The Council expects to see a much greater emphasis on phased renewal and refurbishment rather than complete replacement of buildings.

The Funding Council has asked for all Colleges to provide up to date estates strategies by the end of 2007. The type and size of institution or college will determine the type of estate strategy that will be required. The guidance also requires annual updates of these strategies.

The College's Estates Strategy has been reviewed by the Finance & General Purposes Committee and the College expects to meet the SFC deadline.

3.11 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 may result in increased non-domestic rates and potential corporation tax liabilities.

3.12 Annual accounts and audit process

The deadline for the submission to SFC of FE college audited annual accounts is 31 December. The accounts were approved by the Board of Governors on 11 December 2007 and submitted to SFC by the deadline.

We received draft accounts and supporting papers on 17 October 2007 as agreed in our audit plan. However during the audit we identified a number of material adjustments to the draft accounts in relation to the PFI termination, the fixed assets note and the early retirement provision. As a result of these adjustments, a large number of subsequent draft accounts were produced. The surplus on continuing operations disclosed in these draft accounts moved from £661,000 to the final figure of £340,000. The final annual accounts reflect all of the agreed adjustments identified.

While the working papers prepared by the College were of a reasonable standard, they did not include all of the documentation that we requested in our audit deliverables list which we sent to the College prior to the audit. In addition, College management required to obtain clearance from the College's legal advisors before agreeing the information that could be disclosed in the annual accounts and the information that could be provided to us as auditors in relation to the PFI agreement. This contributed to further delays in the audit.

In future years we recommend that the College compiles all of the supporting documentation for the financial statements in time for the start of the audit. **See action plan 5.2.3**.

4 Governance

4.1 Introduction

It is our responsibility 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.

It is also our responsibility to review the College's governance arrangements in relation to its financial position. This is reported in Section 3 – Finance.

4.2 Corporate Governance Statement

4.2.1 Requirement for a Corporate Governance Statement

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

We are required to report whether the College's Corporate Governance Statement complies with the requirements of the SFC.

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

The College's Corporate Governance Statement for 2006/07 explains that the College was fully compliant with the 2003 code throughout the period.

4.2.3 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.

4.2.4 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 and we are aware that the College has established a process for ensuring this review takes place. **See action plan 5.2.1.**

The 2006 Combined Code contains a 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 2007/08 Corporate Governance Statement.

4.3 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 has a risk register in place, which is subject to regular review and updating by senior management. The risk register output is reported to the quarterly Audit Committee, which is responsible for monitoring risk management arrangements within the College.

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

4.4 Internal audit

Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by BDO Stoy Hayward.

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.

4.4.1 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.

During 2006/07 we have reviewed the following internal audit reports:

- Payroll and Personnel Management
- Review of ICT

- Follow Up Review
- Scottish Enterprise Compliance (ILA) Report

We are grateful to BDO Stoy Hayward for their assistance during the course of our audit work.

4.5 Prevention and detection of fraud

We are required to consider the arrangements made by management for the prevention and detection of fraud. 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 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,
- We focus on specific areas of high risk for potential fraud 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.

4.6 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 Executive.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over registers of interest and disposal of assets.

We are pleased to report that our audit identified no issues of concern in relation to standards of conduct and the prevention and detection of corruption.

4.7 HMIE visit

Her Majesty's Inspectorate of Education (HMIE) carried out a review of the College in November 2007. The HMIE report has not yet been received by the College but we understand that the visit had a highly successful outcome. We will consider the HMIE report during our 2007/08 audit.

5 Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2006/07. There are no issues to be followed up from the 2005/06 audit report, as issued by the previous external auditors.

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 or 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**	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. The College does not have an up to date comprehensive self-assessment of compliance with the 2003 Combined Code.	Without a self-assessment, there is a risk that the College's statement of compliance with the Combined Code is inaccurate. The College should take this opportunity with the introduction of a new Combined Code to perform a self-assessment against the requirements of the 2006 Combined Code. The College should retain this self-assessment as a working document to be regularly updated in line with developments in corporate governance. ***Priority 2***	Agreed. ***Responsible Officer:*** Clerk to the Board ***Implementation Date:*** 31 July 2008
5.2.2 **FE/HE SORP 2007**	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:*** Director of Finance and Estates ***Implementation Date:*** 31 July 2008

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.3 **Audit working papers**	The 2006/07 audit file did not address all the relevant points identified in our audit deliverables list of 27 August 2007. This led to increased need to ask for further back up and the requirement for finance staff to spend more time than otherwise would be the case in dealing with audit queries. Where information was on file, the format and presentation of this information was sometimes difficult to interpret and reconcile to the financial statements, for example in relation to fixed asset transactions.	Non-compliance with the requirements of the audit deliverables list reduces audit efficiency. The deliverables list has specific sections to be signed off when each of the requests has been fulfilled. When pulling together the working papers for 2007/08, each element should be signed off by the person responsible within the College, and clearly cross-referenced to the audit file. Rough, hand-written notes and journals should be avoided. ***Priority 2***	Agreed. ***Responsible Officer:*** Director of Finance and Estates ***Implementation Date:*** October 2008
5.2.4 **Fixed Asset Register**	The College fixed asset register is maintained on a spreadsheet and did not agree to the draft financial statements presented for audit. As a result, a number of transfers were made between fixed asset headings to ensure that the financial statements were correct. The College has detailed records of all assets transferred as part of the PFI buy-out. The assets comprise the actual physical building as well as fixture and fittings. However the different components have not been recorded on the fixed asset register under their individual asset headings.	There is a risk that the College's future depreciation is calculated incorrectly. We recommend that the College apportions the value of the buildings between the various components and depreciates accordingly. ***Priority 2***	This has now been implemented. ***Responsible Officer:*** Director of Finance and Estates ***Implementation Date:*** 31 December 2007

Title	Issue Identified	Risk and Recommendation	Management Comments
5.2.5 **Fixed Asset Register reconciliations**	We had difficulty reconciling between the College's fixed asset register and the nominal ledger.	There is a risk that the nominal ledger does not correctly reflect the underlying fixed assets. We recommend that the College regularly reconciles its fixed asset register to the nominal ledger. ***Priority 2***	This has now been implemented. ***Responsible Officer:*** Director of Finance and Estates ***Implementation Date:*** 31 December 2007

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