HENDERSON LOGGIE

Oatridge College

Annual Audit report for 2007/08 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2008/03

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Contents

Notice: About this report

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Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

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Executive Summary

1.1 Corporate Governance

- The College has shown a surplus for the year of £0.504 million, including a gain on sale of assets of £0.373 million, and an income and expenditure account balance of £2.906 million at 31 July 2008.

- The College's internal auditors have concluded that: '*We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes.*'

- The corporate governance arrangements were reviewed by the College's internal auditors during the year who confirmed that the arrangements in place were 'strong'.

- The College's Corporate Governance Statement confirms that the College has complied with the requirements of the 2006 Combined Code on Corporate Governance, in so far as they apply to the further education sector, for the year to 31 July 2008.

- Our work undertaken in relation to the 2007/08 financial statements audit identified some control weaknesses in the operation of financial controls and procedures. The College operates with a small finance team with limited resources resulting in a lack of segregation of duties for some members of staff. Also, although improvements were noted from last year, some systems difficulties remain in relation to year-end financial reporting.

1.2 Performance

- The College's draft Strategic Development Plan 2008/09 – 2010/11 sets out six key aims together with a number of objectives to be pursued to enable each of the aims to be realised. A revised timetable and approach is being implemented to the College's whole planning process for 2008/09.

- The Board of Management and its committees consider the College's performance in implementing its strategic objectives. The Strategic Development Plan includes Key Performance Indicator targets for 2008-2011 covering a range of indicators under the headings effectiveness, efficiency and enrolment.

- Detailed Operational Plans for 2007/08 were drawn up for each Academic Department and Support Service within the context of the Strategic Development Plan. Achievement against the Operational Plans is monitored at the end of each block. From 2008/09 Quality Improvement Plans have been introduced incorporating both the self-evaluation and team annual planning processes.

- The College has in place a formal approved Policy and Procedure for Risk Management.

1.3 Financial Statements

- On 15 December 2008 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008 and on the regularity of the financial transactions reflected in those financial statements.

- The annual financial statements of the College comply with the Accounts Direction issued by SFC and the new Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- A number of audit adjustments have been made to the unaudited financial statements. These have been agreed with the College's Finance Manager. A number of disclosure adjustments were also made to the financial statements to ensure compliance with the Accounts Direction and SORP.

- Based on the results for the year to 31 July 2008 the College meets the requirements of the Funding Council to be classed as financially secure however the 2008 FFR is forecasting only very small surpluses for the financial years 2008/09 to 2010/11 and the College has been utilising the expertise of the Further Education Development Directorate to appraise the financial situation.

- The College has exceeded its WSUMs target for 2007/08 by 1,015 WSUMs (7.4%); (2006/07: 669 WSUMs – 4.9%).

Introduction

2.1 Background

2.1.1 2007/08 was the second year of our five year appointment as external auditors of Oatridge College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work.

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our *Strategic Planning Memorandum and 2007/08 Annual Audit Plan* issued on 8 May 2008 and considered and approved by the Audit Committee on 19 May 2008. The scope of the audit was to:

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

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

- compliance with legislation and financial regulations;
- fixed assets transactions, including the enhancements to the Student Services area during the year; accounting for VAT; the treatment of proceeds from asset disposals; and compliance with relevant financial reporting standards;
- recoverability of debtors;
- compliance with Financial Reporting Standard (FRS) 17 *Retirement Benefits* and provision for pension liabilities for early retirals;
- recognition of funding provided for specific purposes and the regularity of corresponding expenditure.
- the financial results of the College's subsidiary company and the impact on the Group financial statements; and
- compliance with the new SORP on Accounting for Further and Higher Education.

2.2 Basis of Information

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

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

2.2.3 As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

2.3 Acknowledgement

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

3.1 Financial Position

3.1.1 Funding Council circular FE/54/02, issued on 20 December 2002 defines a college that is financially secure as one that '*on a continuing basis, is able to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve. The college must also generate sufficient cash to finance its operations and meets its liabilities; regular operating surpluses would ensure this.*'

3.1.2 Table 1 provides a summary of the College's planned and actual financial results, based on the formal Financial Forecast Returns (FFR) submitted, by the College, to the Funding Council.

Table 1: Comparison of planned and actual financial results

	2006/07 Actual £000	2007/08 Planned £000	2007/08 Actual £000	2008/09 Planned £000
Financial outturn:				
Surplus	145	363	504	12
Surplus (excl. gain on sale of assets)	133	16	131	12
Income and expenditure reserves (excluding pension liability)	2,656	2,800	2,906	2,940
Cash balances	593	906	1,040	590

Source: Audited financial statements and 2008 FFR

3.1.3 Based on the results for the year to 31 July 2008 the College meets the requirements of the Funding Council to be classed as financially secure however the 2008 FFR is forecasting only very small surpluses for the financial years 2008/09 to 2010/11. We reported last year that the 2007 FFR was forecasting deficits for the financial years 2007/08 to 2009/10 mainly on the back of an estimated 45% reduction in European income going forward and uncertainty over training contract income and concerns remain in these areas (refer paragraph 3.1.7 below). The forecasts set out in the 2008 FFR have been updated to reflect a re-structuring of the academic and commercial delivery areas, and MIS and Client Services from 1 January 2009. Exceptional restructuring costs in the region of £0.080 million will be incurred in 2008/09 with recurrent savings thereafter. The FFR also includes Strategic Funding to be provided to the College by the SFC in 2008/09 and 2009/10 in relation to the Suntrap project and assumes that the College is granted its request for an advance loan from the SFC to enable it to repay bank borrowings.

3.1.4 In addition, the College is forecasting a break-even position for Equestrian Facilities Scotland Ltd (EFSL) for 2008/09 to 2010/11. The company has been operational since February 2007 and the financial statements for the first full year of trading in 2007/08 show a deficit of £0.024 million (deficit £0.049 million for 2006/07). A number of factors have affected the results to date including the fact that EFSL applies the Group policy of writing-off all equipment costing less than £10,000 per individual item to the income and expenditure account in the period of acquisition; and that the results for 2006/07 include a full year's costs but only six months trading income.

3.1 Financial Position (Cont'd)

3.1.5 Given the forecast financial position, the College has been utilising the expertise of the Further Education Development Directorate (FEDD) to appraise the financial situation and received an interim report in November 2008. Discussions with the SFC and the FEDD are ongoing. The Board of Management should continue to monitor the financial position and future plans and ensure that appropriate action is taken if there are indications that the forecasts set out in the FFR will not be achieved.

3.1.6 Overall, the College income in 2007/08 has increased by £0.492 million (8.5%) over 2006/07. The main reason for this is a significant increase of £0.415 million (14.8%) in SFC grants, including an increase of £0.148 million (5.6%) in recurrent grant, an increased level of capital grant treated as revenue of £0.150 million, up £0.123 million (455.5%) on 2006/07, and a £0.123 million (492%) increase in other SFC grants. There has also been an increase of £0.316 million (19.7%) in 'other' income largely made up of an increase in residences and catering income, including income from a contract that attracts a significant number of language students to the College during the vacation period, and an increase in income generated from the operation of the Scottish National Equestrian Centre.

3.1.7 Set against the above increases are a reduction of £0.190 million (44.9%) in management income for LEC programmes to £0.233 million and a reduction of £0.147 million (38.2%) in European funds to £0.238 million. Although income from education contracts is forecast to remain at a similar level in 2008/09 a further reduction in European funding to £0.070 million is forecast. Audit Scotland's *Financial overview of Scotland's colleges 2006/07*, published in April 2008, highlighted the fall in European income as a sector wide issue with a forecast reduction of 50% over the period 2006/07 to 2009/10.

3.1.8 Expenditure in 2007/08 rose by £0.494 million (8.8%) over 2006/07. Staff costs have increased by £0.198 million (6.6%) over 2006/07 and other operating expenses have increased by £0.187 million (8.5%). The main components of the increase in other operating costs was a £0.275 million (203.7%) increase in relation to administrative and academic services, off-set by a reduction of £0.144 million (15.8%) in other income generating expenses.

3.1.9 The surplus of £0.504 million reported for 2007/08 includes a gain on sale of assets of £0.373 million (2006/07: £0.012 million). This mainly relates to the disposal of a piece of land owned by the College (refer paragraph 3.1.18 below).

3.1.10 The College's cash balance at 31 July 2008 was £1.040 million, an increase of £0.447 million (75.4%) on the previous year resulting mainly from an increase in cash flow from operating activities.

2007/08 SUMs outturn

3.1.11 The College's outturn against its 2007/08 WSUMs target is shown in table 2.

3.1 Financial Position (Cont'd)

Table 2: 2007/08 WSUMs outturn

	2006/07	2007/08
WSUMs target	13,577	13,740
WSUMs actual	14,246	14,755
Excess	669	1,015

Source: Audited SUMs returns.

3.1.12 The College's internal auditors carried out the audit of the SUMs return for 2007/08. They concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

FRS 17

3.1.13 The College accounted for its participation in the local government pension scheme as a defined benefit scheme and accordingly this has resulted in the College's share of the net pension liabilities within the Lothian Pension Fund (LPF) being shown on the balance sheet. This is consistent with the accounting treatment adopted in 2006/07.

3.1.14 Note 23 to the financial statements highlights the College's net pension liability position of £0.319 million within the LPF. This has moved significantly in the year from a net pension liability of £0.075 million at 31 July 2007. This change in financial position results from both a fall in the fair value of employer assets as at 31 July 2008 and a change in the assumptions in relation to future salary costs and future pension payments, which affect the actuarially determined liability balance.

3.1.15 With the exception of liabilities arising from early retirals, the College is unable to separately identify its share of assets and liabilities in the Scottish Teachers' Superannuation Scheme as the scheme is notionally funded. The College has applied the concession allowed by FRS 17 and has accounted for the scheme as a defined contribution scheme. This is consistent with the accounting treatment adopted in 2006/07.

Capital Income and Expenditure

3.1.16 The implementation of the College's estate strategy has progressed further in 2007/08 with the completion of enhancements to the Student Services area and the common room. Total capital expenditure in the year amounted to £0.447 million. Deferred capital grants totalling £0.100 million were used to assist with funding fixed asset additions, with the remainder being funded from College resources.

3.1 Financial Position (Cont'd)

Capital Income and Expenditure (Cont'd)

3.1.17 The College's new Estates Strategy was finalised in December 2007 and considered four options for detailed appraisal. The preferred option was to carry out back-log maintenance and selective repair to buildings that will be retained; relocate the Animal Care Unit; and remodel the Farm. The capital cost of this option was estimated at £8.1 million. It is anticipated that the College can contribute approximately £1 million towards the Farm reconstruction costs, depending on the sale of surplus properties, with the balance to be funded from other sources. As the works will be 'finance driven' the critical and high priority health and safety and Disability Discrimination Act works will be tackled first. Estate improvement will be key in ensuring that corporate objectives and aims around the physical environment necessary to deliver a high standard of learning and teaching are met.

3.1.18 During 2007/08 a member of the Board of Management acquired from the College a piece of land that the College had been attempting to sell for a number of years. The District Valuer was asked to provide a valuation for the land to confirm that the price offered by the Board member was fair. This resulted in a gain on sale of assets of £0.343 million net of legal fees. The Board member concerned was excluded from all Board discussions in relation to the sale.

3.1.19 As reported last year, the current fixed asset registers are updated annually on a spreadsheet and are very basic. The maintenance of a more detailed fixed asset register should again be considered.

Provisions

3.1.20 The College has a provision in its balance sheet for £0.095 million relating to pension costs from early retirements awarded to former employees. The provision has been updated at 31 July 2008 using the actuarial tables provided by the SFC.

3.2 Corporate Governance Arrangements

3.2.1 The College has developed its corporate governance arrangements over recent years and the Board of Management carried out a self-evaluation of corporate governance arrangements in June 2008. The arrangements were also reviewed by the College's internal auditors during the year who confirmed that the arrangements were 'strong'. They reported:

- *'Subject to our recommendations, we are satisfied that the College is adhering to the agreed corporate governance process…*
- *Our testing confirmed that the corporate governance processes have been adequately embedded with College staff in line with expectations of best practice and the agreed practice.*
- *We are satisfied that the College procedures ensure adequate corporate governance.*
- *We can confirm that the College procedures will ensure compliance with the College's annual corporate governance statement.'*

3.2 Corporate Governance Arrangements (Cont'd)

3.2.2 The recommendations made by the internal auditors included one that the Code of Conduct for Board members should be reviewed and updated and this was actioned in May 2008.

3.3 Systems of Internal Control

Control environment

3.3.1 Our work undertaken in relation to the 2007/08 financial statements audit identified some control weaknesses in the operation of financial controls and procedures. These related to segregation of duties and some difficulties in financial reporting.

3.3.2 The College operates with a small finance team with limited resources resulting in a lack of segregation of duties for some members of staff. This reduces the overall effectiveness of the College's internal control environment.

3.3.3 We reported last year that the accounting system for the subsidiary was not fully segregated from the College's accounting systems leading to difficulties in financial reporting. Although there has been improvement in this area during 2007/08 some difficulties remain, leading to a delay in receipt of the draft statutory financial statements. Additional accounting and audit work was necessary to address this issue and ensure the delivery of financial statements for the College and the subsidiary that met respective reporting requirements.

3.3.4 The College is also aware that improvements can be made to the debt management arrangements currently in place, which are hampered by the limited staff resources. A number of older debts remain outstanding and improved debt management should benefit the College's cash flow and reduce the level of bad debt provision required. A review of Income Collection and Credit Control is included in the internal audit programme for 2008/09.

Internal Audit

3.3.5 Wylie & Bisset provided internal audit services to the College in 2007/08. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate.

3.3.6 The College's internal auditors have concluded that: '*We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Oatridge College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work. Our fieldwork carried out between October 2007 and April 2008 and we have not undertaken any further internal audit assignments at the time of this report.*'

3.3 Systems of Internal Control (Cont'd)

HMIE Review

3.3.7 We are also required by Audit Scotland's Code of Audit Practice to contribute to the *'whole organisation'* approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.

3.3.8 The report published by Her Majesty's Inspectorate of Education in March 2008 following its review of the College in late 2007 concluded that *'HMIE is confident that:*

- *the College has in place effective learning and teaching processes*;
- *learners are progressing well and achieving appropriate outcomes; and*
- *the College is managing well and improving the quality of its services for learners.'*

The College achieved the highest possible grade of *very good* (major strengths) for one of the seven cross-college elements of the review and was assessed as *good* (strengths outweigh weaknesses) for the others.

Learning and teaching was assessed as *very good* in two of the four subject areas evaluated and *good* in the other two areas. Learner progress and outcomes were assessed as *very good* in three areas and *good* in the other one.

3.4 Corporate Governance Statement

3.4.1 Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management. The College applied the revised Combined Code on Corporate Governance issued in 2006 for the 2007/08 financial statements.

3.4.2 We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal controls.

3.4.3 The College's Corporate Governance Statement confirms that the College has complied with the requirements of the 2006 Combined Code on Corporate Governance, in so far as they apply to the further education sector, for the year to 31 July 2008.

3.4.4 Our audit opinion on the statement is covered by our auditors' report and is unqualified in this respect.

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

3.5.1 During 2007/08 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements*.

3.5.2 The College has appropriate arrangements in place, including current versions off its Financial Regulations, Whistleblowing Policy and Procedure, Fraud Policy and Treasury Management Policy. These documents are reviewed and updated periodically.

3.5.3 There are no outstanding recommendations from previous reports in relation to prevention and detection of fraud and irregularity, standards of conduct and prevention and detection of corruption.

4.1 Performance

Introduction

4.1.1 The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

4.1.2 No performance audit studies were identified by Audit Scotland for the College during 2007/08.

Strategic Plan

4.1.3 The College has recently drafted an updated three-year Strategic Development Plan covering the period from 2008/09 to 2010/11 and this will be presented to the Board of Management for approval in December 2008. The Plan sets out six key aims together with a number of objectives to be pursued to enable each of the aims to be realised. The Strategic Development Plan is supported by the following College strategies: Estate; Human Resources; ICT; International; Knowledge Transfer and Employer Engagement; Learning and Teaching; Marketing; and Quality Enhancement.

4.1.4 Following the corporate governance review noted at paragraph 3.2.1 above, the College's internal auditors reported that:

- *'We are satisfied that the College procedures ensure proper strategic planning.'*

4.1.5 A revised timetable and approach is being implemented to the College's whole planning process for 2008/09 in order to simplify it for staff and to address HMIe's recommendation to be more evaluative and SMARTER in target setting.

Operational Plans

4.1.6 Detailed Operational Plans for 2007/08 were drawn up for each Academic Department and Support Service within the context of the Strategic Development Plan. These listed specific actions to be undertaken together with target dates, persons responsible and performance measures. From 2008/09 Quality Improvement Plans have been introduced incorporating both the self-evaluation and team annual planning processes.

Risk Management

4.1.7 We reported last year that the College did not have a formal approved Risk Management Policy document and recommended that this should be drawn up to provide further assurance that the risk management framework is fully embedded. A Policy and Procedure for Risk Management was drafted in May 2008 and finalised following discussion and approval by the Audit Committee. The College has in place a Risk Register, which is linked to the strategic objectives. The Audit Committee examines the key risks on a rotational basis to identify any changes to the raw risk score or present risk rating and also identify any further action that should be taken. The 'action owner' is noted on the Risk Register.

4.1 Performance (Cont'd)

Risk Management (Cont'd)

4.1.8 Internal audit reviewed the College's risk management arrangements during the year and concluded that they were 'strong'. They reported:

- *'Subject to our recommendations, our review confirmed that the levels of responsibility are clearly defined and there are clear levels of accountability for risk management throughout the College.*
- *We are satisfied, subject to our recommendations, that the College is adhering to the agreed risk management process….*
- *We note that our testing highlights that the risk management process appears to have been embedded with College staff in line with expectations of best practice and the agreed risk management process, with key performance indicators being used to demonstrate performance.'*

4.1.9 Only one recommendation was made by the internal auditors, in relation to the drawing up of a Risk Management Policy which, as previously noted, has now been implemented.

4.1.10 The College's previous internal auditors highlighted that the absence of a formal Business Continuity Plan (BCP) represented a material risk. Following further consideration of this issue by the Board of Management at its meeting on 11 November 2006 the College concluded that a formal BCP was not appropriate at this time and this remains the Board position, subject to ongoing monitoring.

Performance Management

4.1.11 The Board of Management and its committees consider the College's performance in implementing its strategic objectives. A presentation is given by the Principal at the Board of Management Planning Day on progress against targets. A formal review of progress against the Strategic Development Plan 2007/08 – 2009/10 objectives has been carried out when developing the Strategic Development Plan 2008/09 – 2010/11. This review highlighted specific achievements made during the planning period. Strategic development issues for 2008/09 were also noted and taken forward into the updated Plan.

4.1.12 The Strategic Development Plan 2008/09 – 2010/11 includes Key Performance Indicator targets for 2008-2011 covering a range of indicators under the headings effectiveness, efficiency and enrolment.

4.1.13 Achievement against the detailed Operational Plans is monitored at the end of each block. Teams are required to provide senior management with a written update on achievement against each of the targets set.

Financial Management

4.1.14 Monthly management accounts are prepared and reviewed by the Finance team and senior management. Financial monitoring reports are also presented to the College's Finance and Resources Committee for consideration.

4.1 Performance (Cont'd)

Financial Management (Cont'd)

4.1.15 The format of the monthly financial reports includes a comparison of actual v budget for revenue income and expenditure, a cashflow rolling forecast and a note of actual capital spend and grant income received. A balance sheet is prepared six monthly. A commentary on variances is provided.

4.1.16 The College's internal auditors reviewed Budgetary and Financial Controls during the year and concluded that they were 'substantial'.

4.1.17 The College does not operate a commitment accounting system at present or provide budget holders with on-line view only access to the financial ledger. Given the forecast financial position over the next few years good quality, timely budget monitoring information will be essential. It is recognised that there would be resource implications in enhancing the current finance system to provide the above features however this should be considered together with the roll out of e-Procurement by 'APUC' (Advanced Procurement for Universities and Colleges).

Efficient Government Initiative (EGI)

4.1.18 The College submitted an updated EGI information schedule to the SFC in March 2008. Seven areas were identified providing the potential for savings of £0.095 million over three years to 2007/08. The largest area for savings (£0.036 million) comes from the introduction of a 'one-stop shop' for student support. The College has not as yet reported the actual outturn against this target.

Value for Money

4.1.19 The College has a Value for Money Policy which sets out objectives, and responsibilities in relation to the achievement of VFM and this was updated in December 2007.

4.1.20 The College's benchmarking activities, including review of data provided by the SFC, help identify possible areas for improvement action. The College also makes use of available purchasing consortium arrangements.

Financial Statements

5.1 Audit Opinion

5.1.1 On 15 December 2008 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008 and on the regularity of the financial transactions reflected in those financial statements.

5.2 Audit Completion

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

Table 3: Key elements of the audit process

Completeness of draft financial statements
Although a draft trial balance, income and expenditure account and balance sheet was available at the commencement of our audit, a set of draft financial statements in statutory format was not received until 20 November 2008, four weeks after the scheduled end of the audit fieldwork. In addition to the systems issues noted at paragraph 3.3.3 above, this was due to pressure of work on the College's small Finance team.

Quality of supporting working papers
In accordance with our normal practice, we issued a *'prepared by client'* request that set out a number of documents required for our audit of the financial statements. Although year-end working papers were available in electronic format a full set of supporting working papers was not provided in line with this list from the outset of the audit.

Response to audit queries
We are pleased to note that all audit queries were dealt with in a timely manner during our audit fieldwork however pressure of work meant that there was a delay in receiving answers to our final outstanding points.

5.3 Audit Adjustments and Confirmation

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

Table 1: Audit adjustments – impact on the financial statements

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
Irrecoverable VAT		44		
to Land & buildings – cost			44	
Land & buildings – cost			8	
to Major capital project exp.		8		
Sundry creditors			26	
to Land & buildings – cost				26
Fixtures, plant & equipment – cost			23	
to Operating lease payments		9		
HP creditor				14
Fixtures, plant & equipment – aggregate depreciation			28	
to Fixtures, plant & equipment – cost				28
Fixtures, plant & equipment – cost			20	
to Land & buildings – cost				20
Accrued income			20	
to Gain on sale		20		
	______	______	______	______
c/f	-	81	169	88

5.3 Audit Adjustments and Confirmation (Cont'd)

Table 1: Audit adjustments – impact on the financial statements

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
b/f	-	81	169	88
Sundry creditors			25	
to Deferred capital grants				25
Trade debtors			124	
to Trade creditors				19
Accrued income				105
Deferred capital grants			13	
to Release of deferred capital grants (SFC)		13		
	______	______	______	______
	-	94	331	237
	=====	=====	=====	=====

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

Confirmations and Representations

5.3.3 We confirm that as at 12 December 2008, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired. Appendix I provides a copy of the letter issued to the Audit Committee.

5.3.4 In accordance with auditing standards, we obtained representations from the College on material issues.

Appendix I - Confirmation of Independence

To: Oatridge College and the Auditor General for Scotland

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

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

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

General procedures to safeguard independence and objectivity

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

- instilling professional values;
- communications;
- internal accountability;
- risk management; and
- independent reviews.

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

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

Confirmation of Audit Independence

We confirm that as at 12 December 2008, in our professional judgement, Henderson Loggie is independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner and audit staff is not impaired.

This report is intended solely for the information of the College and Audit Committee of Oatridge College and should not be used for any other purposes.

Yours faithfully

Henderson Loggie