Stow College

Annual Audit Report to the Board of Management and Auditor General for Scotland

Audit for the year ended 31 July 2010

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EXECUTIVE SUMMARY

COLLEGE

Financial Highlights

The College achieved a surplus of £50k (2009 £76k) on its income and expenditure account for the year prior to FRS17 adjustments for the Strathclyde Pension Scheme (SPF). On 22 June 2010 the Chancellor announced a change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI). In accordance with the treatment recommended by Hymans Robertson LLP, the effect of this change has been taken through income and expenditure account as a negative past service cost of £545k. The net effect of the FRS17 adjustments in total is a credit of £485k (2009 debit of £64k) to income and expenditure account taking the overall surplus for the year to £535k (2009 £12k).

The financial statements disclose total reserves of £3.416m (2009 £2.813m). The 2010/11 financial forecast return anticipates a surplus of £48k, excluding adjustments in relation to FRS 17.

Corporate Governance

From our review of Corporate Governance arrangements within the College, we believe the Corporate Governance statement to be neither misleading nor inconsistent with other information made available to us during the course of the audit process. The Corporate Governance statement does not disclose any significant weaknesses in the systems of internal control.

Internal auditor Wylie & Bisset LLP concluded that the College has an adequate framework of control, based on the systems examined.

The Operating and Financial Review provides a comprehensive account of the College's activities and meets the requirements of the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ("SORP 2007").

Financial Statement Audit

We have completed our audit work in respect of the financial statements of the College and are satisfied that they present a true and fair view of its financial position for the year ended 31 July 2010. Following approval of the financial statements by the Board of Management on 24 November 2010 our audit report will express unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2010 and (ii) regularity.

In preparing the accounts on a going concern basis, the Board of Management is satisfied that the SFC will provide sufficient funding to enable the College to operate for at least 12 months from the signing of the accounts.

Management provided draft financial statements and supporting working papers in line with the agreed timetable. The draft financial statements and supporting documentation were complete and of a very good standard.

The 2009/10 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

BDO

OVERVIEW, SCOPE AND INDEPENDENCE

Overview

• The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of Stow College ('the College') for the year ended 31st July 2010.

• This report covers those matters we believe to be material in the context of our work. It was prepared from general information obtained during the audit process, including management accounting information and discussion with management and staff of the College. It has been prepared solely for the use of the College and the Auditor General for Scotland and should not be shown to any other person without our express permission in writing. We do not accept responsibility for this report to any other person and we hereby disclaim any and all such liability. We do not, in preparing this report, accept or assume responsibility for any other purpose or to any other person to whom it is shown or into whose hands it may come save as expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so at entirely their own risk.

• The corporate governance statement within the College's financial statements states that the College has been fully compliant with guidance on corporate governance for the year ended 31 July 2010. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Significant Accounting and Audit Issues

Detailed below are the key accounting and audit issues identified during our work:

- SFC Review
- Additional Fee Waiver - Non-Recognition of Debtor
- FRS 17
- Capitalisation of Property Improvement impacted by Asbestos
- **Note:** There were no management letter points raised

Unadjusted Audit Differences

We are required by International Standard on Auditing (UK & Ireland) 260 to bring to your attention audit adjustments that we have identified but we are not proposing to adjust and which the Board of Management is required to consider. There were no unadjusted audit differences identified during our audit work.

OVERVIEW, SCOPE AND INDEPENDENCE
Continued…

Key areas	Summary
Scope	The accounting rules and regulations applied to Further Education Colleges are specifically laid out in various documents as discussed on page 8 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents. We can confirm that in preparing the financial statements the College has complied with the Accounts Direction for Scotland's colleges and universities issued under circular SFC/35/2008. The audit of Stow College was performed 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. This report has been issued to College management and will be considered by the Governance and Audit Committee.
Independence	Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to "those charged with governance". This term refers to the Board of Management in our view and we confirmed our independence to them in a letter on 15 April 2010. Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our Conduct of Professional Services Manual. In addition, we have issued supplementary written guidance and embedded the requirements of the Standards in our internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We confirm that the firm complies with the APB Ethical Standards and, in our professional judgment, is independent and objective within the meaning of those Standards. In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

AUDIT FRAMEWORK

Audit Framework

Audit Framework

BDO LLP was appointed by Audit Scotland as external auditor to Stow College for 5 years covering the financial years 2006/07 to 2010/11. This year was the fourth of the five-year appointment by the Auditor General for Scotland as external auditors of Stow College ("the College"). This report to the College Board of Management and Auditor General for Scotland provides our opinion and highlights issues arising from our work in relation to our audit work for 2009/10 and details how the requirements of the "Statement of Responsibilities and the Code of Audit Practice" have been met by the College and by BDO LLP .

Audit Bodies

- The Auditor General, a royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish public spending bodies to account for the proper, efficient and effective use of public money.
- Audit Scotland is an independent statutory body which was set up in April 2000 to provide assistance and support to the Accounts Commission and to the Auditor General for Scotland in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.

College Responsibilities

The College is publicly accountable for the conduct of business and the stewardship of funds under its control. The College's Board of Management is therefore responsible for:

- establishing adequate corporate governance procedures;
- ensuring funds from the SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which the SFC may from time to time prescribe;
- ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguarding the assets of the College and taking reasonable steps to prevent and detect fraud and other irregularities;
- securing the economical, efficient and effective management of the College's resources and expenditure;
- maintaining proper accounting records and preparing financial statements which give a true and fair view of the financial position of the College at the year-end and its income and expenditure for the year.

AUDIT FRAMEWORK
Continued…

Auditor's Responsibilities and Approach

Audit Framework

We are required to report to the Board of Management of the College, the Auditor General for Scotland and the Scottish Parliament on the financial statements of the College. Our responsibilities are to:

- provide an opinion, to the extent required by the relevant authorities, on the financial statements 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 requirements of Audit Scotland's Code of Audit Practice (March 2007), regarding the College's corporate governance arrangements relating to:
  - the College's review of its systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct, and prevention and detection of corruption
  - its financial position.
- obtain an understanding of the accounting and internal control systems in place in the College sufficient to allow the audit to be planned and an effective audit approach developed.

Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.

AUDIT FRAMEWORK
Continued…

Audit Framework

College Guidance

We took reasonable steps to plan and carry out the audit to ensure that the above responsibilities were met and that we complied with the requirements of Audit Scotland's Code of Audit Practice.

In essence the scope of our work is similar to that applied to a limited company audit, however, the accounting rules and regulations applying to Further Education Colleges are specifically laid down in various documents as detailed below.

Financial Memorandum

This memorandum sets out the terms and conditions under which the Scottish Funding Council will make payments to the Board of Management of Colleges of Further Education out of funds made available by the First Minister of Scotland. Our audit procedures identified no factors that would lead us to believe that the college does not comply with the terms and conditions of the financial memorandum.

Accounts Direction

In preparing its annual accounts the College is required to comply with the directions of the Scottish Funding Council (SFC). The Accounts Direction is designed to ensure that disclosures in the financial statements of all colleges follow best practice. We can confirm the College's financial statements comply with the Accounts Direction.

Guidance on Audit

In carrying out our audit work we are also required to comply with International Standards on Auditing (UK and Ireland) and to take cognisance of any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board. We also comply with relevant ethical standards and guidance issued or adopted by the relevant professional accountancy bodies and any supplementary guidance issued by Audit Scotland.

Statement of Recommended Practice (SORP)

We can confirm that the financial statements of the College are in general in compliance with the requirements of the 2007 SORP.

FINANCIAL HIGHLIGHTS

Key areas	Summary
Financial Highlights	• **Income and Expenditure Account:** The College achieved a surplus of £535k, 3.7% of total income in respect of the year-ended 31 July 2010 (2008/09: £12k and 0.1%, Forecast: £26k and 0.2%). This increase represented a £523k increase on the prior year and a £509k increase on forecast. The main reason for the increased surplus compared to the original budget relates to the incorporation of the FRS 17 adjustments for the Strathclyde Pension Scheme which resulted in a credit to Income and expenditure account of £485k. Other positive variances arose due to the unbudgeted strategic change grant exceeding the recurrent grant reduction, and a focus on cost reductions of other operating expenses. Total income increased by £272k (1.9%) on the prior year. The increase was achieved through increased SFC grant funding (through the strategic change grant) and an increase in tuition fees . • **Balance Sheet:** The financial statements report net assets at 31 July 2010 of £5.552m, which have risen by more than £1m. The increase is attributable to the £535k surplus generated in the year, an increase in deferred capital grants of £449k as at 31 July 2010 and an actuarial gain in respect of the pension scheme of £68k. The balance on the Revaluation Reserve carried forward as at 31 July 2010 is a surplus of £5.051m (31 July 2009: £5.205m).
Cash Flow	During 2009/10, the College experienced a net outflow of cash of £474k (2008/09: outflow of £138k).
Financial Forecast	The initial 2009/10 financial plan forecasted a surplus of £26k. The difference between that which was forecast and achieved can be explained by the increase in SFC grant income partly related to the unbudgeted strategic change grant exceeding the recurrent grant reduction, the rise in tuition fees and education contract income, the increase in payroll costs due to staff restructuring costs of £634k and the impact of FRS 17 pension adjustments, and finally the unbudgeted cost cutting of other operating expenditure. The forecast of income, expenditure and cash balances for the College for 2010/11 shows that both income and expenditure are expected to fall resulting in a small surplus of £48k.

FINANCIAL HIGHLIGHTS
Income and Expenditure Account

Income

- The table below summarises the main sources of income for 2009/10 and 2008/09.
- The College's WSUMs target for 2009/10 was 45,391 and the College delivered 45,398 (2009 51,842). As a result, the College will not be liable to repay any recurrent grant to the Scottish Funding Council in 2010/11.
- A significant proportion (77%) of income comes from the Scottish Funding Council. The College's FE recurrent grant fell by £918k to £8.274m as the WSUMs activity level was reduced. This fall was compensated by a strategic change grant of £1.4m to allow the College to reduce its cost base.
- Total SFC Grant income is normally in the region of 76% of total income, based on SFC 2007/08 statistics for colleges delivering over 45,000 WSUM's. SFC grant income increased by £231k on 2008/09 due in the main to the strategic change grant exceeding the recurrent grant reduction.
- Tuition fee and education contract income increased by £229k to £2.7m. This is a result of increased higher education income partially deriving from a 2% increase in full-time tuition fees and a 9% increase in full-time students.
- A reduction in both other income and investment income of £135k and £53k respectively. This is a result of lower grant income from both the European Union and other sources, and low interest rates being applied to a lower bank balance.

Income and Expenditure Account	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Scottish Funding Council Grants	11,022	10,791	231
Tuition Fees and Education Contracts	2,700	2,471	229
Other Income	587	722	(135)
Investment Income	7	60	(53)
Total Income	**14,316**	**14,044**	**272**
Expenditure (see analysis on next page)	**(13,781)**	**(14,032)**	**(251)**
Surplus	**535**	**12**	**523**

FINANCIAL HIGHLIGHTS
Income and Expenditure Account continued…

Expenditure

Total expenditure fell by £251k (1.8%), in comparison to 2008/09, to £13.781m. This conscious effort to cut costs in the face of future funding cuts has contributed to the result for the year. The decrease in expenditure is, in the main, due to a reduction in other operating expenditure with the most significant movements detailed below. The table below summarises the main categories of expenditure for 2009/10 and 2008/09:

- an increase in staff costs of £50k primarily as a result of wages and salary increases of the higher of 1.5% rise / £300 lump-sum to staff during the year plus incremental progression less the reduction in 8 staff members. Staff costs also include £634k of restructuring costs the effect of which has been largely masked by an FRS 17 credit adjustment of £583k. £545k of this credit is as a result of the change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI). In accordance with the treatment recommended by Hymans Robertson LLP, the effect of this change has been taken through income and expenditure account as a negative past service cost.
- a decrease in other operating expenses of £310k as a result of a reduction in cuts to both teaching department costs and teaching service/learning support/training & development costs.
- an increase in interest payable of £40k due to the FRS 17 accounting treatment which has resulted in an interest charge of £98k as the interest cost exceeded the expected return on assets.

Expenditure Analysis	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Staff Costs	9,192	9,142	50
Other Operating Expenditure	3,587	3,897	(310)
Depreciation	904	935	(31)
Interest Payable	98	58	40
Total Expenditure	**13,781**	**14,032**	**(251)**

FINANCIAL HIGHLIGHTS
Balance Sheet

The balance sheets shows an increase of £1.052m in net assets as at 31 July 2010 compared to the previous year end. Significant movements include:

- A decrease in debtors of £201k. This is as a result of improved credit control procedures with students having to pay 50% of fees up front and the remainder by direct debit, a fall in the European funding debtor and a reduction in the Chinese School accrued income balance.
- A reduction in cash of £474k. This is primarily the result of the settlement of part of the SFC grant clawback creditor during the course of the year, which was partially offset by increased capital grants that exceeded capital expenditure made during the course of the year.
- An increase in creditors (due both before and after one year) of £1.726m. This is as a result of the SFC funding clawback figure of £2.885m included as a provision last year being re-categorised within creditors when the amount was finally agreed with SFC. Approximately £1m of the liability was settled during 2009/10 with £366k being included as a current liability and £1.46m being due after one year at 31 July 2010.
- A reduction in the provision for liabilities of £2.885m. This is a result of the re-categorisation referred to above.
- A fall in the size of the pension liability of £553k, which has been brought about mainly by past service gains as a result of using CPI and not RPI in the FRS 17 calculations.

Balance Sheet Category	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Fixed Assets	8,154	8,139	15
Debtors	473	674	(201)
Cash	1,959	2,433	(474)
Creditors: Amounts falling due within 1 year	(1,691)	(1,423)	(268)
Creditors: Amounts falling due after 1 year	(1,458)	-	(1,458)
Provisions for Liabilities and Charges	-	(2,885)	2,885
Pension Liability	(1,885)	(2,438)	553
Net Assets	**5,552**	**4,500**	**1,052**

FINANCIAL HIGHLIGHTS
Financial Forecasts

Financial Forecasting

- The initial 2009/10 financial plan forecasted a surplus of £26k before any FRS 17 adjustments. The table below (bottom left) shows the reconciliation between the forecast outturn and the actual amount generated during the course of the year. The main reasons for the movement from the forecast to the actual outturn were as follows:
  - Increase in SFC grant income partly related to the unbudgeted strategic change grant exceeding the recurrent grant reduction.
  - rise in tuition fee and education contract income related to the unbudgeted increase in relevant student numbers.
  - Increase in payroll costs due to staff restructuring costs of £634k offset by an FRS 17 credit adjustment of £583k.
  - unbudgeted cost cutting of other operating expenditure.
- The table below (bottom right) summarises the forecast income, expenditure and cash balances for the College for 2010/11.
- Both income and expenditure are expected to fall in 2010/11, resulting in a modest increase in surplus, excluding FRS 17 adjustments. The reduction in income will be due to the sector-wide cut in SFC grant funding in addition to a fall in tuition fee income. College expenditure will have to be monitored accordingly, in particular staff costs, in order to achieve the forecasted surplus.

Forecast vs. Actual	31 July 2010 £'000	31 July 2009 £'000
Forecast outturn per budget	**26**	**79**
Increase in SFC grant income	416	351
Increase (/decrease) in other income	131	(198)
Increase in payroll costs	(814)	(90)
Decrease (/increase) in other operating expenditure	291	(66)
FRS 17 adjustments	485	(64)
Actual outturn at year end	**535**	**12**

Forecast Income, Expenditure and Cash Balances for 2010/11	£'000
Income	13,322
Expenditure	(13,274)
Forecast surplus for the year ending 31 July 2011	**48**
Cash balance at 31 July 2010	1,951
Forecast movement in cash during 2010/11	(706)
Resulting cash balance at 31 July 2011	**1,253**

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters

SFC Review

- In November 2008 SFC carried out a review of fundability of certain College programmes which resulted in two programmes being deemed ineligible for funding. The College was required to repay SUMs viewed as being inappropriately claimed for years dating back to financial year 2003/04. The judgement by SFC regarding the repayment of grant was finalised in November 2009 with the College required to repay £2.885m of funding over a 7-year period. This liability was recognised in the financial statements for the year ended 31 July 2009 and the first repayment of £1.061m was made in the year ended 31 July 2010.
- In addition to repayment of past funding, SFC also reduced the activity funding of the College for 2009/10 from 53,978 WSUM's to 45,391. To allow the college to reduce its cost base accordingly, SFC agreed to provide strategic change funding to allow the pace of change to be managed over a five year period. Strategic change grant of £1.404m has been recognised as income in the accounts to 31 July 2010.

BDO Conclusion

The accounting treatment of the liability due to SFC and the strategic change grant has been correctly accounted for by the College in the financial statements.

Additional Fee Waiver - Non-Recognition of Debtor

- With respect to fee waiver the College is not in a clawback position with regards to 2009/10, and due to the high level of demand amongst students the College is in a position to receive an additional fee waiver grant. Calculations were agreed showing that the College may receive an additional fee waiver grant of £78,749. However, due to the economic downturn and the resultant increase in the number of students with fee waiver needs across the college sector, SFC may not be able to meet the demand from all colleges for additional fee waiver grant due to funding constraints. The potential additional fee waiver income has not been recognised in the financial statements.

BDO Conclusion

We agree with management's prudent treatment of non-recognition of the additional fee waiver grant due to the doubt over whether the grant is recoverable as SFC have indicated that they cannot guarantee payment.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters Continued…

FRS 17 - CPI

- On 22 June 2010 the Chancellor announced a change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI) which was previously used. The effect of this change on the Stow College share of the Strathclyde Pension Fund (SPF) comes through as a negative past service cost of £545k. The key question is whether this credit should be taken through income and expenditure account or taken to the statement of total recognised gains and losses. The Accounting Standards Board issued Urgent Issues Task Force information sheet number 90 entitled 'Accounting implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits' on 13 October 2010. The issue is whether the change gives rise to a different benefit (a change in benefit) or whether a different assumption is being applied to an unchanged benefit (a change in assumption). FRS 17 'Retirement Benefits' requires that a change in scheme liabilities arising from a change in benefit be recognised in the income and expenditure account. In contrast, it requires that a change in the scheme liabilities arising from a change in an assumption is part of actuarial gains and losses which should be recognised in the statement of total recognised gains and losses.
- The College has taken the view that the credit of £545k should be taken to income and expenditure account in accordance with actuarial advice from Hymans Robertson LLP.

BDO Conclusion

In this case the draft guidance is capable of interpretation either way and the accounting treatment hinges in part on whether there is a constructive obligation to pay pension increases linked to RPI in the SPF. We are satisfied that the College's accounting treatment of the £545k can be supported by reference to the draft UITF guidance and the advice given by Hymans Robertson LLP.

The consultation period for comments on the UITF draft abstract expired on 10 November 2010 and a final UITF document will be issued in due course and will hopefully provide clarity on the issue. If the final document requires that such credits be taken to the statement of total recognised gains and losses rather than the income and expenditure account, then the College accounting treatment will need to be adjusted next year by restating the comparative figures on the income and expenditure account. The balance sheet figures are unaffected.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters Continued…

Capitalisation of Property Improvements

- During the year asbestos dust was found within the ICT department. Following this, a mixture of repairs and improvements were made to the area; the latter involved the expansion of the workspace to help meet training commitments. Costs relating to the removal of the asbestos dust of £21k were expensed during the course of 2009/10 whilst improvements to the building totalling £148k were capitalised.

BDO Conclusion

As per Financial Reporting Standard 15 ("Tangible Fixed Assets"), "*…subsequent capital expenditure on a tangible fixed asset is recognised as an addition to the asset to the extent that the expenditure improves the condition of the asset beyond its previously assessed standard of performance... including modification of an item of plant to extend its useful economic life or increase its capacity*". We are satisfied that the costs have been correctly dealt with in accordance with FRS 15.

SUMs Achievement

- SFC require the College to achieve total SUMs within 2% of its target for the year to avoid being in a clawback position.

BDO Conclusion

The College certificate to SFC shows a WSUMs total for the year to 31 July 2010 of 45,398. This figure is in excess of its target for the year of 45,391 and accordingly there should be no clawback of SFC grant for non achievement of SUMs target.

CORPORATE GOVERNANCE

Corporate Governance
We reviewed the College's corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. The corporate governance arrangements of an organisation are the means by which strategy is set and monitored, managers are held to account, risks are managed, stewardship responsibilities are discharged and institutional sustainability is ensured. The Code of Audit Practice requires that auditors review and report on the College's corporate governance arrangements as they relate to: • the College's reviews of its systems of internal control, including reporting arrangements; • the prevention and detection of fraud and irregularity; • standards of conduct and arrangements for the prevention and detection of corruption; and • its financial position.
The Board of Management is required to report on their compliance with the "***Combined Code on Corporate Governance (June 2008)*". Looking forward we would draw your attention to the revised Corporate Governance Code published in June 2010 called ***"The UK Corporate Governance Code"*** and also to the Consultation Draft issued by CIPFA in May 2010 called **"Delivering Good Governance in Scotland's Colleges: A Framework"**.
Board of Management: has 5 formally constituted committees which have specific terms of reference and act with delegated authority from the Board (Governance and Audit Committee, Finance and General Purposes Committee, HR Management Committee, Remuneration Committee and Search Committee. • ***Composition:*** the Board is comprised of 15 members as at 31 July 2010; hence, the Board has no more than the recommended maximum of 16 members. The skills of the members of the Board include those with relevant skills and expertise in finance, customer care, change management and management consultancy. The College representatives include the Principal, a member of the teaching staff, a member of the support staff and two student representatives. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor student of the College). The role of College Clerk to the Board of Management is performed by Brian Schoular, thereby meeting the best practice that the role is held by an individual who is independent of College management. The recommended maximum period of office for board members of 12 years has been adhered to. • ***Timing:*** exceeded the recommendation for meeting not less than 4 times during the year, with 6 meetings throughout 2009/10. Therefore, the Board met at sufficiently regular intervals during the course of the year in order discharge its duties effectively.

CORPORATE GOVERNANCE
Continued…

Corporate Governance continued…

Board of Management continued…

- ***Responsibilities:*** It was noted that no one individual has unfettered powers of decision-making. Arrangements are in place to enable the chairman to hold meetings with the other non-executive governing body members without executives present when deemed appropriate. Protocols are in place to ensure that the impact of senior staff undertaking positions on external governing bodies is fully considered.
- ***Development and Evaluation:*** Management are aware of the importance of ensuring that the new Board members have a timely induction and appropriate development programme. The Board reviews its effectiveness and undertakes a formal and rigorous evaluation of its own effectiveness and that of its committees at regular intervals.

Governance and Audit Committee: is comprised of 6 members as at 31 July 2010. The committee, with 6 non-executives, meets the recommendation that there be at least 2 independent non-executive members. In addition, with 2 qualified accountants, the Board has satisfied itself that it has exceeded the recommendation that at least one member of the committee has recent and relevant financial expertise. It was noted that the Chair of the Board of Management was not also a member of the Governance and Audit Committee and that no member of the Governance and Audit Committee was also a member of the Finance and General Purpose Committee.

From our review of Corporate Governance arrangements within the College we do not believe the Corporate Governance statement to be misleading or inconsistent with other information made available to us during the audit process.

System of Internal Control

A review and assessment of the College's corporate governance arrangements was carried out. This assessment included a review of the College's committee minutes and completion of a number of standard checklists. The checklists cover issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct, issues of legality and the College's financial position.

The College, in accordance with the Accounts Direction, has included in its financial statements, a statement covering the responsibilities of the Board of Management in relation to corporate governance.

Our review of the statement concluded that it complies with guidance and is not inconsistent with other information we are aware of from our audit.

CORPORATE GOVERNANCE
Continued…

Review of Internal Audit

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 systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality. Internal audit services are provided by Wylie & Bisset LLP. An assessment was made of the adequacy of the internal audit outputs and it was concluded that we as external auditors were able to use the work of internal audit in planning our own procedures. Accordingly cognisance was made of the work of internal audit in the following areas during 2009/10:

- Bank and general ledger reconciliations
- Revenue assurance including credit control
- Procurement and contract management
- Payroll and NI compliance
- Student SUMs
- Student support funds
- Sustainability

On 7 September 2010, Wylie and Bisset LLP issued the internal audit report for the year ended 31 July 2010. This concluded that, the College has an adequate framework of control, based on the systems examined.

Risk Management

The Board has responsibility for the identification and management of risks facing the College. A risk assessment matrix of the exposure to risk, and the extent to which these risks are controlled, including implementation of actions to mitigate risk, is updated and presented to the Board of Management every quarter to review the College's response to identified risks. This identifies, prioritises and assesses risks to the College according to the likelihood and the impact of each risk.

CORPORATE GOVERNANCE
Continued…

Prevention and Detection of Fraud and Corruption

The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment showed the arrangements to be operating satisfactorily. The College has in place an over-arching fraud prevention policy, in addition to a whistle-blowing policy. Both of the policies are readily available to staff on the College's intranet and are also published on the College's website. The fraud prevention also includes a plan on the response to any frauds identified. No frauds were identified by the College in 2009/10. In addition to the aforementioned policies, the College has also implemented tendering and procurement procedures to mitigate the risk of financial irregularity.

Operating and Financial Review (OFR)

Additional guidance on the content of the operating and financial review (OFR), the inclusion of which is recommended within the 2007 SORP, was issued by the Scottish Funding Council on 2 October 2009. This guidance states that it would be helpful if a core set of performance indicators could be incorporated within the OFR to meet best practice and facilitate comparisons between the performances of different colleges. Two colleges have been identified as providing examples of good practice. Stow College has included the required level of detail in its OFR. The college has considered how it can best implement the recommendations within this guidance going forward in order to present data that best reflects the key performance indicators being measured against targets set.

PREPARATION OF THE FINANCIAL STATEMENTS

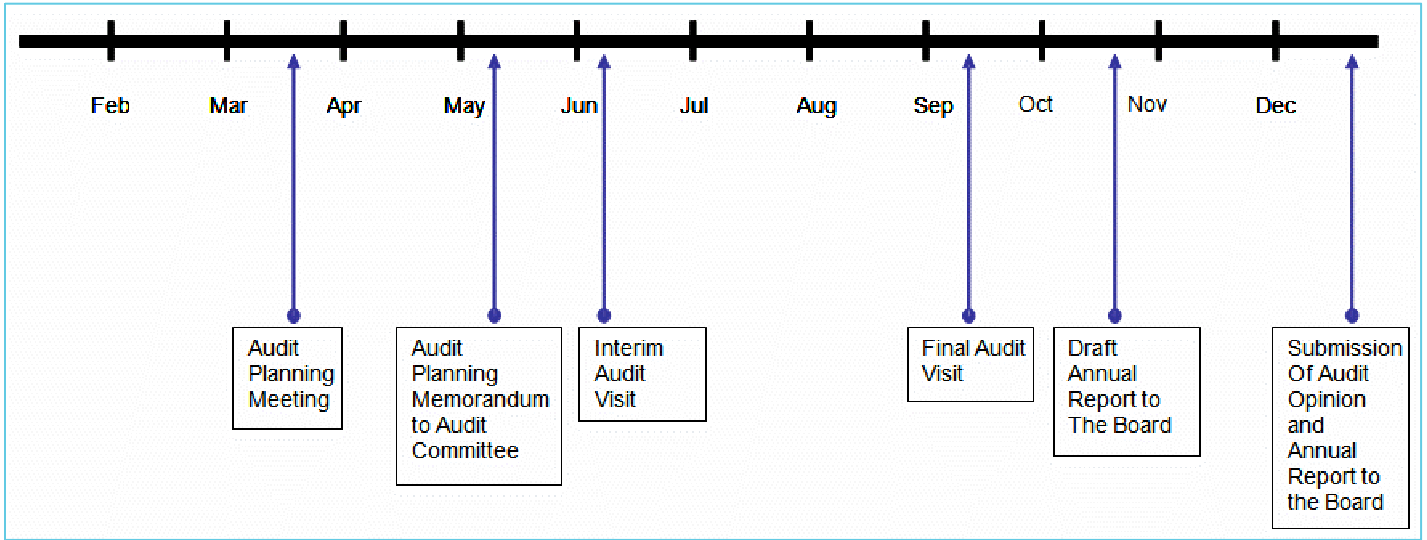
Preparation of the Financial Statements

Our Audit Planning Memorandum issued to the College in May 2010 outlined the various stages of the audit process, as set out in the timetable below. In relation to the key factors of the production of the financial statements, our assessment was as follows:

Completeness of Draft Financial Statements: We received a set of draft financial statements on 27 September 2010, the first day of audit fieldwork. The draft accounts were of very good quality. Most issues were resolved by the end of fieldwork and a revised draft received on 6 October 2010. Any outstanding matters were amicably resolved prior to receipt of the final accounts and audit sign off.

Quality of Supporting Documentation: Prior to the beginning of our audit fieldwork, we issued an "Information to be Prepared by Client" request setting out the required supporting documentation to be in place for the beginning of audit field work. The supporting documentation that was received was complete and of a high standard. Any requests for additional information required were promptly attended to by College staff.

Response to Audit Queries: Management provided high quality and timeous responses to all of the audit queries that were posed to them, as in prior years.



APPENDIX 1
Unadjusted Audit Differences

Unadjusted Audit Differences

We are required by International Standards on Auditing 260 "Communication of matters to those charged with governance" to communicate all uncorrected audit differences, other than those we clearly believe to be trivial.

There were no unadjusted audit differences identified during our audit work.

		Income & Expenditure Account		Balance Sheet	
Unadjusted Audit Differences	**£'000**	**DR £'000**	**CR £'000**	**DR £'000**	**CR £'000**
Surplus for the Year before Audit Adjustments	535				
No unadjusted audit differences were noted					
Total Adjustments					
Surplus for the Year after Audit Adjustments	**535**				

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