

**Private and Confidential**

Our Ref: AN01/JM/GB/2011  
Date: 12 December 2011

The Board of Governors of Angus College  
Keptie Road  
Arbroath  
DD11 3EA

Dear Sirs

## **Audit of the College's financial statements for the year ended 31 July 2011**

We have now completed our audit of the College's draft financial statements, subject to the Board's approval of the accounts and our receipt of the standard representation letter that we have requested.

We are pleased to enclose our report on the audit. The purpose of the report is to record the overall results of our work and to assist Board members and College management by commenting on those significant matters that came to our attention during the course of the audit. In accordance with the requirements of Audit Scotland's code of Audit Practice, this report is also addressed to the Auditor General.

We would like to thank all College staff who assisted us in the completion of our work, particularly those in the Finance Department, and members of the Audit Committee with whom we discussed the draft of this report.

Yours faithfully

John McLeod  
Director of Audit

160 Dundee Street, Edinburgh, EH11 1DQ  
Tel: +44 (0) 131 221 8820 Fax: +44 (0) 131 221 8821  
Email: [edinburgh@rsmtenon.com](mailto:edinburgh@rsmtenon.com) [www.rsmtenon.com](http://www.rsmtenon.com)

RSM Tenon Limited, A member of RSM Tenon Group PLC  
Registered Office 66 Chiltern Street, London W1U 4GB No: 4066924 England

# **Angus College**

**Annual Report for the Year Ended 31 July 2011  
To the Board of Governors and the Auditor General for Scotland**

**RSM Tenon**

**160 Dundee Street  
Edinburgh  
Issued 12 December 2011**

**CONTENTS**

	<b>Page</b>
<b>1. Executive Summary</b>	<b>1</b>
<b>2. Introduction</b>	<b>2</b>
<b>3. Financial Review</b>	<b>3-4</b>
<b>4. Financial Statements</b>	<b>5-9</b>
<b>5. Corporate Governance</b>	<b>10-11</b>
<b>6. Action Plan</b>	<b>12</b>
<b>7. Appendices</b>	<b>13</b>

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

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

## **1 EXECUTIVE SUMMARY**

### **1.1 Financial Review**

- The college achieved a surplus of £94,000 (previous year - £68,000)
- The college continues to maintain a healthy balance sheet with net assets of £16,150,000
- The budget for 2011-12 predicts a deficit of £57,000.

### **1.2 Financial statements**

- We have issued an unqualified audit opinion on the accounts of Angus College for the year ended 31 July 2011
- No adjustments affecting the surplus for the year were processed during the course of the audit

### **1.3 Corporate Governance**

In our fourth year of appointment we have carried out an overall review of Corporate Governance arrangements, and have no recommendations. From a review of the Corporate Governance arrangements, the college appears to have a strong system in place to comply with Corporate Governance requirements.

### **1.4 Action Plan**

There were no matters concerning the College's Regularity Framework or Overall Control Environment which came to our attention in the course of our audit which we believe should be brought to the attention of the Board of Management and as such we do not present an Action Plan in relation to such matters as we have done in prior years.

## **2 INTRODUCTION**

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

- 2.1** Our audit of Angus College for the year ended 31 July 2011 has been carried out in accordance with statutory requirements and follows the practices prescribed by the Code of Audit Practice and guidance issued by the Auditing Practices Board (APB). The Code of Audit Practice sets out fully the responsibilities of the College and its officers in relation to financial probity, control, preparation of accounts and the achievement of value for money in the provision of services. We are required under the Code to give an independent assessment of how the College has discharged its stewardship of public funds. A summary of our responsibilities is contained in the appendices.
- 2.2** The report sets out the principal findings from our audit and discusses immaterial unadjusted errors identified during our work.
- 2.3** We invite Angus College to receive this report and consider the comments we have made.

### **3 FINANCIAL REVIEW**

#### **3.1 Introduction**

The purpose of the financial review is to consider the general financial standing of Angus College by looking back at financial performance in 2010/11 and to look ahead to the future financial position. Our review is aimed at helping College members understand the financial position of Angus College at a particular point in time. It should not be regarded as definitive or comprehensive and the College should not seek to rely on this summary in isolation.

#### **3.2 Financial Performance 2010-11**

The financial statements reflect a surplus for the year of £94,000 (previous year - £68,000). This compares favourably to the budget of £22,500 surplus. The main movements are summarised below (budget does not include non-recurrent grants although actual results do):

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	
SFC Funding	9,184	9,680	496	Variance represents grants received from SFC for specific purposes and the receipt of additional fee waiver grant fro the year 09/10 which was not accrued for at 31 July 2010.
Tuition fees and education contracts	2,030	2,338	308	Variance represents success in winning education contract income.
Other Income	1,033	999	(34)	
Staff costs (excl exceptionals)	8,939	8,600	339	Variance represents a small reduction in permanent lecturing staff in line with voluntary redundancies.
Other operating expenses	3,285	4,327	(1,042)	This includes exceptional restructure costs of £431K

The college continues to maintain a healthy balance sheet position, with net assets (including deferred capital grants) of £16,150,000. Cash in hand (net of overdraft balances) at the year-end was £4,520,000.

### **3.3 Reserves**

The college continues to build up its general reserves to £4,090,000 (previous year - £3,870,000). This is part of the longer term strategic plan, including upgrading of the college estate.

### **3.4 Financial Plan 2011-12**

The latest draft forecast for 2011/12 predicts a deficit of £57,000.

### **3.5 Capital expenditure plans**

Angus College's operational plan for 2011-12 predicts capital expenditure of £361,000 in the year to 31 July 2012, principally on modernisation projects. This will be funded through Formula Capital Funding for 2011/12.

### **3.6 Recurrent grant allocation**

The SFC has confirmed recurrent Grant income of £6,692,000 (2010: £7,300,000) and Fee waiver initial grant of £1,022,000 (2010: £1,000,000) for the year to 31 July 2012.

## **4 FINANCIAL STATEMENTS**

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

### **4.2 Audit opinion**

We have issued an unqualified audit opinion on the accounts of Angus College for the year ended 31 July 2011. A copy of our audit opinion is attached to this report in Appendix 1.

### **4.3 Independence**

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

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

### **4.4 Audit approach and materiality**

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

In our planning, we have reviewed the work of the internal auditors. From our review, there were no areas on which the internal auditors focussed their attention which would allow us to take reliance on their work.

- The level of materiality for making adjustments to the financial statements, as set out in the detailed planning memorandum, was calculated based on total income and the value of general reserves and was assessed at £156,000.

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

Any significant matters were discussed with management during the course of the audit. This includes the audit outcome of the key risks identified within our audit planning memorandum dated 2011.



#### **4.5 Accounting policies and practices**

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

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

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

We are pleased to advise that there are no significant issues which we have to draw to the members' attention. The following issues should however be noted:

- **Tayside Superannuation Fund**

Whilst the College does not apply the accounting provisions of FRS17, the Board should maintain an awareness of the deficit position on the Tayside LGPS. In particular, we would point out that despite some recovery in the market values of stocks and shares during 2009/10, markets remain extremely volatile and many schemes have seen no improvement or a worsening in their actuarial position between 2009 and 2011 due to changes in inflation assumptions and projected bond yields. In particular, concerns over UK inflation rates in comparison with continued low investment yields are causing concern within the pension sector.

Conversely, the College will have benefited from the change in the benefit structure of LGPS with effect from June 2010, whereby future pension increases will be based on the Consumer Price Index rather than the Retail Price Index. Further details of this change were set out in our letter issued at the conclusion of our 2010 audit.

- **International Financial Reporting Standards**

We would draw to your attention the information in Appendix 4 regarding potential conversion to the use of International Financial Reporting Standards. It is estimated that this will first impact the sector in the 2014/15 financial year.

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

Issue	Audit risks	Planned audit approach	Outcome
<b>FRS 17 Accounting for Pensions</b>			
<ul style="list-style-type: none"> <li>▪ On preparation of the financial statements for year ending 31<sup>st</sup> July 2009, it was decided that the Tayside Superannuation Fund be accounted for as a defined contribution scheme in accordance with information available at that time.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Disclosures and the accounting for pension costs and liabilities may not comply with FRS17 and the SORP <i>Accounting in Further and Higher Education Institutions</i>.</li> </ul>	<p>We will;</p> <ul style="list-style-type: none"> <li>▪ Review college correspondence with, and the report of the actuaries in relation to the scheme</li> <li>▪ Review current technical assessments in relation to the accounting for pension schemes in public body financial statements.</li> <li>▪ Assess whether the basis of the pension scheme and reasoning related to the disclosure as a defined contribution scheme remains valid at 31<sup>st</sup> July 2011.</li> </ul>	<p><b>Satisfactory</b></p>

Issue	Audit risks	Planned audit approach	Outcome
<b>Scottish Enterprise Contracts</b>			
<ul style="list-style-type: none"> <li>▪ The College delivers around £400k of contracts for Skills Development Scotland and the DWP. These are not discrete projects and so if the funding is lost the college may generate a deficit as the related costs cannot be cut.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Change in government policy could cut funding in this area and lead to a poor outturn for the College.</li> </ul>	<ul style="list-style-type: none"> <li>▪ We will review the outcome of any changes in future contracts.</li> </ul>	<b>Satisfactory</b>
<b>Recognition of Funding College Income</b>			
<p>The audit of 2009/10 student activity data by Henderson Loggie may result in adjustments to the SUMS which may take the College below 97% threshold and leave them subject to clawback of these funds.</p>	<p><i>Recurrent grant income may be overstated in the accounts.</i></p>	<p><i>Reconciliation to year end remittance advice from SFC and review the outcome of the student activity data audit.</i></p>	<b>Satisfactory</b>
<b>Going Concern</b>			
<ul style="list-style-type: none"> <li>▪ With the current hot political topic being public spending cuts, there is an expectation that colleges might have to operate with a 15-20% cut in funding.</li> </ul>	<ul style="list-style-type: none"> <li>▪ This may have significant impact on going concern if the college does not react effectively.</li> </ul>	<ul style="list-style-type: none"> <li>▪ We will               <ul style="list-style-type: none"> <li>▪ Review budgets for the coming year</li> <li>▪ Discuss with the senior management what efficiencies and cost savings they have identified which can be implemented in case of funding restrictions.</li> </ul> </li> </ul>	<b>Satisfactory</b>

## **ADJUSTED AND UNADJUSTED ERRORS**

### **4.6 Actual Audit Adjustments**

There were no adjustments processed during the course of our audit.

### **4.7 Potential Audit Adjustments**

The following potential adjustments have been noted during the course of our audit but have not been actioned.

<i>Potential adjustments:</i>	<i>Effect on surplus £</i>
Recognition of invoice for training restaurant equipment received pre-year end (£100, 094) - not authorised for payment until post year end due to goods not being formally accepted although delivered pre-year end	0
Over-provision for pension fund strain payments	20,000
<b>Net impact of potential adjustments on Surplus</b>	<b>20,000</b>

### **4.8 Accounting and financial control systems**

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

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

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

### **4.9 Regularity audit**

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

## **5 CORPORATE GOVERNANCE**

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

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

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

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

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

### **5.3 Risk Management**

Although the term "Risk Management" has become relatively common recently, the underlying principles – of identifying and assessing risks and taking action to minimise their occurrence and impact, are well established. The College's Committee structure, Financial Regulations, and Internal Audit functions are all examples of policies and procedures which address potential risks. The College have in place a Risk Management policy, and have included a Risk Register in their Strategic plan 2009-2012.

### **5.4 Internal Audit**

We adopt a managed approach in planning our audit work at your College.

As part of our planning, we have reviewed the work of the internal auditors. From our review, we identified that we could place reliance on the work of internal audit in respect of the College's WSUMS return in order to give us a degree of audit comfort over that aspect of the income cycle and adjusted our audit plan accordingly.

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

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

### **5.5 Systems of Internal Control**

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

Through the results of our own testing we have concluded that the fundamental key financial systems of the College are operating satisfactorily.

### **5.6 Other Governance responsibilities**

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

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

The College also has in place a Fraud Prevention Policy and Response plan, and a complaints procedure.

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

#### *Legality/Propriety*

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

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

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

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

- A Register of Members' Interests
- Information regarding their appointment to outside bodies and organisations is disclosed in the financial statements.
- Code of conduct
- Public Interest Disclosure policy

**6 ACTION PLAN**

There were no matters concerning the College's Regularity Framework or Overall Control Environment which came to our attention in the course of our audit which we believe should be brought to the attention of the Board of Management and as such we do not present an Action Plan in relation to such matters as we have done in prior years.

**Angus College**

**Annual Report for the Year Ended 31 July 2011**

**Annexes for Management Information**

**RSM! Tenon**



## **Appendix 1**

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

We have audited the financial statements of Angus College for the year ended 31 July 2011 under the Further and Higher Education (Scotland) Act 1992. The financial statements comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of the Board of Governors and auditor**

As explained more fully in the Statement of Responsibilities of the Board of Governors set out on pages 12-13, the Board of Governors is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and receipts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and receipts.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 July 2011 and of its surplus for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

**Opinion on regularity**

In our opinion in all material respects:

- the expenditure and receipts in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 2006 and any other terms and conditions attached to them for the year ended 31 July 2011; and
- funds from whatever source administered by the body for specific purposes have been properly applied for the intended purposes.

**Opinion on other prescribed matters**

In our opinion the information given in the Operating and Financial Review and the Statement of Corporate Governance included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit;  
or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

RSM Tenon Audit Limited  
Statutory Auditor  
160 Dundee Street  
Edinburgh  
EH11 1DQ

Date.....

## **Appendix 2**

### **Our respective responsibilities**

#### **Financial Statements**

It is the responsibility of the College to:-

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

We are required to give an opinion on:-

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

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

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

#### **Corporate Governance**

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

*Three fundamental principles apply:-*

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

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

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

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

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

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

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

### **Risk Management**

#### *The College's Responsibility*

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

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

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

### **Systems of Internal Control**

#### *The College's Responsibility*

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

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

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

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

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

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

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

#### *The College's Responsibility*

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

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

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

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

#### **Legality**

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

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

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

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

#### *The College's Responsibility*

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

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

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

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

#### **Financial Position**

##### *The College's Responsibility*

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

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

*The Role of RSM Tenon Audit Limited*

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

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

## **Appendix 3**

We have summarised below certain issues we have identified which we believe likely to impact on the Scottish College sector in the foreseeable future and which the Board may wish to consider when discussing the College's current performance and future plans.

### **1 Going concern**

**With funding to the SFC under pressure from the Scottish Government we believe it is useful to set out for the Board a brief summary of issues surrounding the Going Concern assertion in relation to financial statements in the College Sector.**

It is clear that SFC will continue to support colleges in financial difficulties and work with them to identify potential solutions. However, they are unable to simply refinance an institution through significant one-off revenue grants, or provide funds to support mergers.

Therefore, when preparing the year end financial statements there is a far greater focus, by both Board and auditors, on the appropriateness of adopting the going concern basis used in the preparation of financial statements.

It is the responsibility of the Board to assess the College's ability to continue as a going concern. It is our responsibility as auditors to consider whether that assessment is appropriate, and whether the financial statements include the disclosures necessary to show a true and fair view.

The Boards' assessment must cover a period of at least twelve months from the date of approval of the financial statements. Furthermore, when Governors are aware of material uncertainties related to events or conditions that may cast significant doubt upon the College's ability to continue as a going concern, those uncertainties shall be disclosed.

Some of the key matters to consider when making a decision are as follows:

- Available head room in bank facilities for the next 12 – 18 months and impact of any anticipated breach in bank covenants;
- The robustness of the assumptions used when preparing the cash flow, which need to be realistic;
- Reductions in funding body income both FE and HE;
- The expectation that colleges can increase and recover fee income charged to adults and employers;
- Increased competition for funding body income, especially from private training providers and academies;
- Accuracy of past forecasts and management accounts;
- The consistent application of accounting policies adopted;
- Appropriateness of disclosures made within the financial statements.

### **Cash flow assumptions: Are they robust?**

The following are some questions you may wish to pose when assessing the college's cash flow projections and budgets in support of the going concern assessment:

Reducing funding body income

- Under-performance – what will be the timing/quantum of clawback or adjustment to future funding allocation?

- What is the impact from local demographics for 16-18 and position of the labour market on all age groups?
- Funding rates per qualification are reducing; will this lead to an overall decrease in income, or will the college be able to increase delivery to compensate?

#### Impact from HE sector

- How will reduced public funds to universities impact available income to the college, both direct and franchised?
- What will be the effect on Consortium arrangements? (Note for instance that the consortium agreement may share costs and penalties arising from over-recruitment by a partner).

#### Tuition fees

- Are the increases realistic compared to prior years?
- Are the debts recoverable?

#### Restructuring

- Accuracy of the payments/savings - Are the calculations accurate and is the list of staff impacted complete?
- Potential litigation – What is the level of ongoing litigation and potential liability that may result? Have likely settlement payments been included?
- Cashflow phasing - Is the phasing of the payments/savings correct?

#### Property costs

- Capital projects & summer works – What is the timing of payments/works undertaken?
- Backlog of maintenance works or position of planned maintenance programme – What is the latest position, cost and likely timing of corrective works?

#### Finance costs

- Capital repayments – What is the timing of these payments or when does the payment holiday end?
- Interest costs – What is the value and timing of interest costs and interest rate changes? Has any sensitivity analysis been completed?
- Breach of bank covenants – Are the covenants monitored and has an appropriate value been included for an arrangement fee where a breach has occurred as well as the likely impact of an increased interest rate?



## **2 International Financial Reporting Standards (IFRS) in Further and Higher Education**

**In the audit management letter for the year ended 31 July 2010 we commented on the likely implementation of International Financial Reporting Standards (IFRS) in the FE sector. Since then, some progress has been made. However, the final implementation arrangements remain unclear.**

The Statement of Recommended Practice (SORP) for Further and Higher education institutions is based on UK General Accepted Accounting Practice (GAAP). At the moment the SORP has assumed that the education convergence to IFRS will follow that of UK GAAP.

The implementation date for IFRS had moved to 1 January 2014 so would not affect colleges until financial year 2014-15. However, if there is a need to consolidate the sector into the Whole of Government Accounts then this timetable is likely to be brought forward.

Financial Reporting Exposure Draft (FRED) 45 is the first step to the introduction of the Financial Reporting Standard for Public Benefit Entities (FRSPBE) it makes it quite clear that this is not to replace SORPS but to provide supplementary guidance on specific matters relevant to Public Benefit Entities.

It also clarifies that the FRSPBE applies in conjunction with the proposed Financial Reporting Standard for Small and Medium Sized Entities which is drafted essentially for commercial entities.

The FRED makes it clear that where there is a conflict between the FRSPBE and a SORP, the FRSPBE will take precedent so there will inevitably be updates to SORPS to bring their principles into line with the FRSME/FRSPBE.

### **3 Changes to student VISA system**

**The second set of changes to Immigration Rules affecting the student tier of the points based visa system came into effect on 4 July 2011. The first set of changes came into force on 21 April 2011 following the Home Secretary, Theresa May's, initial announcement regarding the amendments.**

The changes have been introduced to address abuse of the immigration system and protect genuine students wishing to apply to study at legitimate colleges.

The changes, effective from 4 July, are:

- Work entitlements will be restricted to migrants studying at HEIs and publicly funded further education colleges only;
- The sponsorship of dependants will be restricted to those studying at postgraduate level at HEIs on courses lasting at least 12 months, and government sponsored students on courses lasting at least 6 months;
- Education providers will be required to vouch that a new course represents genuine academic progression;
- The Home Office will ensure that maintenance funds are genuinely available to the applicant, by introducing a declaration on the visa application form;
- The Home Office will commit to publish a list of financial institutions that it considers, on the basis of experience, not to satisfactorily verify financial statements in more than 50% of a sample of cases;
- A streamlined application process for low-risk nationals applying to attend courses with Highly Trusted Sponsors will be introduced;
- The list of courses for which students must receive ATAS clearance will be extended;
- The ability to deliver accountancy courses accredited by the Association of Chartered Certified Accountants (ACCA) to those sponsors accorded platinum or gold status by ACCA will be restricted; and
- The Home Office will clarify the position of overseas universities with campuses in the UK.

From 2012, institutions wishing to recruit overseas students will be required to demonstrate that they have 'current and satisfactory full inspection or audit' from the Quality Assurance Agency, Ofsted or the Independent Schools Inspectorate before applying to the UK Border Agency for Highly Trusted Sponsor Status.

### **4 Data protection**

On 24 November 2010 the Information Commissioner issued the first financial penalties for data protection breaches under new regulatory powers granted in April this year. Hertfordshire County Council received a fine of £100,000 after a fax containing sensitive information on a child sex abuse case was misdirected to a member of the public in June 2010. Sheffield based advisory organisation A4e were also fined £60,000 for the loss of an unencrypted laptop containing the personal details of thousands of people.

These fines send a strong message to all organisations handling personal information and reflect that the Commissioner's office is committed to enforcing its new regulatory powers.