

FORTH VALLEY **COLLEGE**

**ANNUAL REPORT
TO THE BOARD OF MANAGEMENT AND THE AUDITOR
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR
THE YEAR ENDED 31 JULY 2011**

NOVEMBER 2011

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

Date of commencement of Final Visit	27 September 2011
Date of Draft Report to College	4 November 2011
Date of Meeting re Draft Report	4 November 2011
Date of College Responses	21 November 2011
Date of Presentation of Report	30 November 2011

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GLOSSARY OF TERMS

Annual Report	-	Report
Forth Valley	-	The College
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Forth Valley College with effect from 1 August 2006 for a period of 5 years until 31 July 2011. From 1 July 2008 Wylie & Bisset became Wylie & Bisset LLP.
- 1.2 The Annual Report has been prepared following the conclusion of our audit of the financial statements of Forth Valley College for the year ended 31 July 2011.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in March 2007.
- 1.4 Paragraph 24 of the 'Code' states that the auditor's objectives are to:
- Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
 - Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
 - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset LLP with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 Our audit report on the financial statements for the year ended 31 July 2011 is unqualified.

- 1.8 The Annual Report covers the following areas as set out in the Code:
- a) Internal Controls and audit approach
 - b) Internal Audit
 - c) Corporate Governance
 - d) Value for Money
 - e) Prevention and detection of fraud and irregularities
 - f) Management letter – 2010
 - g) Management letter – 2011
 - h) Emerging Issues
 - i) Summary of Deviations
- 1.9 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10 Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully



Wylie & Bisset LLP

2 INTERNAL CONTROLS AND AUDIT APPROACH

2.1 We have reviewed in the course of our audit the key elements of the College's systems of internal financial controls including the following areas:-

- a) The College's medium and short term planning processes including budgets;
- b) The College's review of key performance indicators, financial and management accounts;
- c) The College's controls over income and expenditure;
- d) The College's financial controls and procedures;
- e) The input from the Audit Committee and the Finance Committee;
- f) The College's internal audit service.

2.2 In carrying out our audit work we have taken into account the following:

- a) The Code of Audit Practice issued by Audit Scotland;
- b) The Code of Audit Practice issued by SFC;
- c) Guidance issued by Audit Scotland;
- d) Guidance issued by SFC;
- e) The College's internal control procedures;
- f) The College's Corporate Governance procedures;
- g) The College's approach to Value for Money;
- h) The financial memorandum between SFC and the College.

2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:

- a) Reviewing previous financial statements;
- b) Reviewing internal audit plans and reports;
- c) Discussions with senior management and staff at the College;
- d) Completing appropriate audit programmes;
- e) Carrying out analytical review procedures;
- f) Carrying out substantive and compliance audit tests on a judgemental basis;
- g) Reviewing the minutes of the principal College committees.

2.4 Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 8 & 9.

2.5 The audit recommendations are included in the appropriate sections of this report.

2.6 The recommendations have been graded as either High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

3 FINANCIAL STATEMENTS

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

AUDIT REPORT

- 3.3 We are pleased to record that there are no qualifications in our audit report on the College's 2010/11 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

FINANCIAL PERFORMANCE

- 3.4 The income and expenditure account shows an operating deficit for the year of £1,084k (2010 – surplus of £104k).
- 3.5 The College has currently budgeted for a £910k surplus in 2011/12 before any FRS 17 adjustment.
- 3.6 A reconciliation of the 2010/2011 Budget to actual was reviewed and discussed with the College. The budget had a profit of £216k but the actual resulted in a deficit of £1,084k.

The reconciliation includes the following favourable significant variances:-

	£,000
PFI costs	1,307
Depreciation	450
Other operating expenses	575
Payroll costs	186

and the following significant adverse variances

Repayment of property sales	3,000
FRS17 costs	573
Tuition fees/education	544

3.7 The salient PIs are included in the Operating and Financial Review.

SUBMISSION OF ACCOUNTS

- 3.8 The accounts were submitted for audit on 27 September 2011. Working papers provided have generally been of a good standard and queries arising from the audit have all been resolved. Key staff members were readily available for consultation throughout the audit process.

ISSUES ARISING

- 3.9 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Financial Accountant. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.
- 3.10 **Accounting Policies:** In accordance with FRS18 the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts.
- 3.11 **Campus Development:** The College is currently in the process of planning new builds; £30,000k of costs relating to this have been included in the Fixed Assets as assets in the course of construction.

4 INTERNAL AUDIT

Objective and Approach

- 4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2 The College's internal auditors for the year to 31 July 2011 were Baker Tilly.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2011 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2011 the following internal audit reports were issued:
- a) External Communication – Alloa Campus
 - b) CAP, Flexible Learning and Evening Provision
 - c) Student Experience
 - d) Commercial Risk
- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment except that the Estates Management review has been incorporated into the 2011/12 internal audit programme.
- 4.6 The Internal Audit annual report from the College's internal auditors concluded that the College has adequate and effective risk management, control and governance processes to manage the achievement of the College's objectives. The Commercial Risk has one high risk recommendation and they recommended that a Commercial Risk Register be put in place and all staff involved in business development be provided with risk management training.

Opinion

- 4.7 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with the Internal Audit providers. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit. Accordingly reliance was placed on the work of Internal Audit in all areas on which they reported during 2010/11 as detailed at 4.4.

5 CORPORATE GOVERNANCE

Objective and Approach

5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was carried out using a bespoke checklist. We also reviewed the following:

- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2011;
- b) The College's Corporate Governance strategy;
- c) The minutes of meetings of key College committees issued during the year.

Opinion

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

Recommendations

5.3 The recommendations in this area are contained in Section 9.

There were no High Priorities noted.

6 VALUE FOR MONEY

Objective and Approach

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

Opinion

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

Recommendations

- 6.3 There are no recommendations in this area.

7 PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

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

Opinion

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

Recommendations

- 7.6 There was no recommendation in this area.

8 MANAGEMENT LETTER – 2010

- 8.1 The management letter for the year ended 31 July 2010 was issued by Wylie & Bisset LLP following the audit for that year.
- 8.2 The College Response set out in the management letter has been updated.
- 8.3 Points 2, 3 (First part) and 4 have been implemented and the points 1 and 3 (Second part) are being carried forward.
- 8.4 There was no recommendation graded as “High” priority in this area.

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>1. Corporate Governance</p> <p>The Combined Code on Corporate Governance requires that the chairman should hold meetings with the non-executive members without the executives present. Led by the senior independent member, the non-executive members should meet without the chairman present at least annually to appraise the chairman’s performance and on such other occasions as are deemed appropriate. This is not done at the College.</p>	<p>We recommend that the non-executive directors meet periodically without the chairman in order to appraise his performance.</p>	<p>Medium</p>	<p>Chairman only took up post in September 2009 and therefore appraisal not performed in December 09.</p> <p>Appraisal will take place in December 2010 and will be brought forward to September for future years.</p>	<p>Ken Thomson</p>
<p>2. Governance Self Evaluation</p> <p>The self evaluation for the Board members is to be completed in December 2010.</p>	<p>It is recommended that for 2011, the self evaluation of the Board members be completed by October 2011 so that they can be assessed before we sign the Audit Report.</p>		<p>Agreed. Review will be brought forward to September / October in future years.</p>	<p>Ken Thomson</p>

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>3. Fixed Assets</p> <p>The college has spreadsheet schedules to support the fixed assets figures in the nominal ledger but do not have an inventory register.</p> <p>Also the college did not carry out a physical check of the assets during the course of the year.</p>	<p>It is recommended that the college invest in a comprehensive fixed assets register including inventory register – with location depreciation rates etc – so as to have a more effective management control of the fixed assets.</p> <p>It is recommended that during the course of the year the college should physically spot check the assets. The evidence of these checks should be filed and any corrective adjustment to the fixed assets should be implemented.</p>	<p>Medium</p>	<p>The College has configured the Fixed Assets module of the current financial system which will record all assets capitalised. This will now be populated following the agreed write off of assets in the 2009-10 Accounts .</p> <p>ICT maintain an inventory of all ICT equipment.</p> <p>Estates will implement an inventory of all new assets in line with the move to the new campuses.</p> <p>ICT currently carry out physical checks of IT equipment. In future these will be properly documented.</p> <p>From 2010/11 we will expand this to cover estates.</p>	<p>Alison Stewart December 2010</p> <p>Tom Gorman August 2011</p> <p>David Allison July 2011</p> <p>Tom Gorman July 2011</p>
<p>4. Student Support Funds</p> <p>£61K of above funds may have been wrongly applied resulting in additional expense to the Income and Expenditure accounts and the final accounts have not been adjusted to reflect this.</p>	<p>It is recommended that the college ensures that proper procedures and controls are in place to ensure that the payments are being applied correctly.</p>	<p>Medium</p>	<p>The college is in discussion with SFC regarding the interpretation of the guidance. Appropriate actions will be taken once discussions are complete.</p>	

9 MANAGEMENT LETTER – 2011

9.1 The recommendations following the audit for the year ended 31 July 2011 are set out below.

9.2 The recommendations have been graded as follows:

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

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

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

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>1. Corporate Governance</p> <p>The Combined Code on Corporate Governance requires that the chairman should hold meetings with the non-executive members without the executives present. Led by the senior independent member, the non-executive members should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate. This is not done at the College.</p>	<p>We recommend that the non-executive directors meet periodically without the chairman in order to appraise his performance.</p>	Low	<p>Agreed.</p> <p>Annual appraisal will be implanted.</p>	<p>Ken Thomson</p> <p>Sept 2012</p>
<p>2. Corporate Governance</p> <p>The college has no procedures on the "fit and proper" persons test for the members in relation to "Management Condition" as detailed in the Finance Act 2010.</p>	<p>It is recommended that relevant systems and procedures be put in place to comply fully with the provisions of the Act.</p>	Low	<p>Agreed.</p> <p>Procedure to be in place for new financial year.</p>	<p>Ken Thomson</p> <p>May 2012</p>
<p>3. Corporate Governance</p> <p>The college has no procedures in place to prevent persons associated with the college from bribing in relation to the Bribery Act 2010.</p>	<p>It is recommended that relevant systems and procedures be put in place to comply fully with the provisions of the Act.</p>	Low	<p>Agreed. Existing procedures to be reviewed to incorporate provisions.</p>	<p>Ken Thomson</p> <p>May 2012</p>

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>4. Fixed Assets</p> <p>The college did not carry out a physical check of the assets during the course of the year.</p>	<p>It is recommended that during the course of the year the college should physically spot check the assets. The evidence of these checks should be filed and any corrective adjustment to the fixed assets should be implemented</p>	<p>Medium</p>	<p>As part of the implementation of the College's asset register linked to the new estates, periodical physical checks will be carried out and recorded</p>	<p>Tom Gorman David Allison July 2012</p>

10. CURRENT ISSUES

10.1 ASB 'Policy Proposal: the future of UK GAAP'

The purpose of this consultation paper from the Accounting Standards Board (ASB) is to set out a proposed strategy for the future basis of UK GAAP and its convergence with International Financial Reporting Standards (IFRS).

The proposed approach is to work under the International Accounting Standards Board's (IASB) framework and to converge with IFRS to the fullest extent possible consistent with the needs of UK entities. The ASB's current intention is to issue an exposure draft withdrawing the separate body of literature currently referred to as UK GAAP and replacing it with new IFRS-based literature. Any modifications to the application in the UK of the underlying IFRS literature would be proposed at that stage.

The paper considers the future role of statements of recommended practice (SORPs) that are issued by industry or sectoral bodies that are recognised by the ASB. As a general principle, the ASB's view is that SORPs should only remain where there is a need arising from sector specific issues not covered by guidance in accounting standards. The proposal is to restrict the number of SORPs to which the ASB provides any endorsement.

The ASB intends issuing an exposure draft outlining its recommendations for the future of UK GAAP after considering the feedback on this paper.

It is noted that the SFC's expectation is that colleges will continue to converge with international financial reporting standards (IFRS) as UK GAAP converges over the next few years, and it appears likely that implementation will not take place before 2013. Consequently, it is highlighted that the transition timetables for IFRS that apply to the rest of the public sector do not therefore apply to colleges.

11. SUMMARY OF DEVIATIONS

11.1 During our audit work, we identified one issue relating to control matters. The table below outlines the issue and our recommendations concerning it.

Nature of Deviation & reason for it		Actual Deviation £,000	Unadjusted I&E Effect £,000	Unadjusted B/S Effect £,000
Legal fees not accrued		9	9	9

The Financial Statements have not been adjusted as the amount is not material.

APPENDIX A

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

Statement of the Board of Management's Responsibilities

The Board of Management are required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992 and 2005, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 *Statement of Recommended Practice - Accounting for Further and Higher Education Institutions* and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In preparing the financial statements, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Institution will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud;
- secure the economical, efficient and effective management of the College's resources and expenditure;
- ensure sound corporate governance and proper conduct of the College's operations.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outcomes;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance Committee;
- a professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Statement of the Board of Management's Responsibilities (continued)

Disclosure of information to auditors

The Board members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each Board member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Approved by order of the members of the Board on 7 December 2011 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'H Hall', written in a cursive style.

Hugh Hall
Chairman

APPENDIX B

INDEPENDENT AUDITORS REPORT

Independent Auditors' Report to the members of the Board of Management of Forth Valley College, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Forth Valley College for the year ended 31 July 2011 under the Further and Higher Education (Scotland) Act 1992. These 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. These financial statements have been prepared under the accounting policies set out within them.

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

Respective Responsibilities of the Board of Management, Principal and Auditors

The Board of Management and the Principal are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting for Further and Higher Education. The Board of Management and the Principal are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Principal's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with the International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992, and the Accounts Direction. We report to you whether in our opinion, the information which comprises the Operating and Financial Review included in the Annual Report, is consistent with the financial statements. We also report whether in all material respects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 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 College for specific purposes have been properly applied for the intended purposes.

In addition, we report to you if, in our opinion, the college has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement of Corporate Governance and Internal Control reflects the college's compliance with the requirements of the Scottish Funding Council and if we report if, in our opinion, it does not. We are not required to consider, whether the statement covers all risks and controls, or form an opinion on the effectiveness of the College's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Operating and Financial Review, the Corporate Governance Statement and the Statement of the Board of Management's Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report to the members of the Board of Management of Forth Valley College, the Auditor General for Scotland and the Scottish Parliament (continued)

Basis of Audit Opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Principal in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial Statements

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made there under by the Scottish Funding Council, of the state of affairs of the College as at 31 July 2011 and of its deficit, total recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder by the Scottish Funding Council; and
- information which comprises the Operating and Financial Review, included with the Annual Report, is consistent with the financial statements.

Regularity

In our opinion in all material respects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 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 college for specific purposes have been properly applied for the intended purposes.

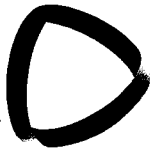


Wylie & Bisset LLP
Chartered Accountants
Registered Auditor
168 Bath Street
GLASGOW
G2 4TP

7 December 2011

APPENDIX C

LETTER OF REPRESENTATION



7 December 2011

Wylie & Bisset LLP
Chartered Accountants
168 Bath Street
Glasgow
G2 4TP

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the year ended 31st July 2011.

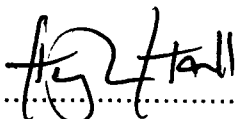
1. We acknowledge as members of the Board of Management our responsibility for ensuring:
 - a) the financial statements are free of material misstatements including omissions
 - b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2011.
 - c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
 - d) all other records and related information, including minutes of all management meetings, have been made available to you.
 - e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and
 - f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.
2. We have appointed Baker Tilly as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you.
3. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
4. The College has no liabilities or contingent liabilities other than those disclosed in the accounts.
5. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.
6. There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

7 December 2011

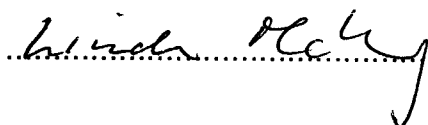
7. The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.
8. We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.
9. The College has not contracted for any capital expenditure other than as disclosed in the accounts.
10. The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.
11. We are not aware of any irregularities, including fraud, involving management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.
12. We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.
13. We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.
14. We confirm that we have considered the attached unadjusted deviations. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts. The combined effect of the deviations is not material and we do not consider that their absence from the financial statements affects the true and fair view given.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully



..... Chairman



..... Principal & Chief Executive