South Lanarkshire College

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

Audit for the year ended 31 July 2011

CONTENTS

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EXECUTIVE SUMMARY

Financial Highlights

The College achieved an operating surplus of £21k (2010 £13k) on its income and expenditure account for the year prior to FRS 17 adjustments for the Strathclyde Pension Scheme. The net effect of the FRS17 adjustments in total is a credit of £7k (2010 credit of £298k) to income and expenditure account taking the overall surplus for the year to £28k (2010 £311k).

The financial statements disclose total reserves of £943k (2010 £535k) including a deficit on the pension reserve of £495k (2010 £882k). The 2011/12 financial forecast return anticipates a surplus of £19k, excluding adjustments in relation to FRS 17.

Corporate Governance

From our review of Corporate Governance arrangements within the College, we do not believe the Corporate Governance statement to be either 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 adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives.

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 2011. Following approval of the financial statements by the Board of Management on 13th December 2011 our audit report will express unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2011 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.

The 2010/11 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.

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 South Lanarkshire College ('the College') for the year ended 31st July 2011.

• 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 2011. 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:

•Future grant funding

•Severance scheme

•SUMs achievement

•Financial outturn

•FRS 17 – Retirement benefits

•**Note:** There were no management letter points raised

OVERVIEW, SCOPE AND INDEPENDENCE
Continued…

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. A schedule of such adjustments is included in Appendix 1. We have not included items under £1,200 which we consider to be clearly trivial. Total unadjusted audit differences identified by our audit work would increase the surplus of £28k by £2k. The Board will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole.

Scope

The accounting rules and regulations applied to Further Education Colleges are specifically laid out in various documents as discussed on page 7 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 South Lanarkshire 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 Audit Committee.

OVERVIEW, SCOPE AND INDEPENDENCE
Continued...

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 6 May 2011.

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

BDO LLP was appointed by Audit Scotland as external auditor to South Lanarkshire College for 5 years covering the financial years 2006/07 to 2010/11. This year was the fifth of the five-year appointment by the Auditor General for Scotland as external auditors of South Lanarkshire 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 2010/11 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

We are required to report to the Board of Management of the College and to the Auditor General for Scotland 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…

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 £28k, 0.2% of total income in respect of the year-ended 31 July 2011 (2009/10 £311k and 2.5%, Forecast: £15k and 0.1%). The decrease was a £296k reduction on the prior year and is in line with the forecast. The main reason for the reduction in the surplus compared to the prior year is the incorporation of the FRS 17 adjustments for the Strathclyde Pension Scheme resulting in a credit of £7k to Income and expenditure account (2009/10 credit of £298k). **Balance Sheet:** The financial statements report net assets at 31 July 2011 of £27.3m (31 July 2010: £27.6m). As such, total net assets are comparable with the prior year.
Cash Flow	During 2010/11, the College experienced a net inflow of cash of £1,070k (2009/10 £228k).
Financial Forecast	The initial 2010/11 financial plan forecasted a surplus of £15k. There is no significant difference in the current year between the forecast figure and the final result. The forecast for the College for 2011/12 shows a surplus of 19k (taking no consideration of the FRS 17 adjustment as this is difficult to predict). Cash is forecast to fall by £1m to £1.4m by 31 July 2012.

FINANCIAL HIGHLIGHTS
Income and Expenditure Account

Income

- The table below summarises the main sources of income for 2010/11 and 2009/10.
- The College's WSUMs target for 2010/11 was 42,378 and there have been no issues over the delivery of this with audited activity of 42,891. As a result, the College will not be liable to refund any amounts received in 2011/12.
- A significant proportion of income (77%) is received from the Scottish Funding Council with the SFC income having reduced from 2010. This proportion of SFC Grant income is normally in the region of 76% of total income, based upon SFC 2007/8 statistics for colleges delivering over 45,000 SUMs.
- The decrease in SFC Grants of £308k is mainly as a result of a lower level of non-recurrent grant funding (£367k).
- The decrease in Tuition Fees and Education Contracts of £86k is partly as a result of fewer UK Higher Education and Further Education students, with the reduction being partly offset by more non EU students. This reflects the deliberate strategy of the College to generate more fees from non EU students.
- The decrease in Other Income of £198k mainly reflects a decrease in the level of ESF funding available.

Income and Expenditure Account	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Scottish Funding Council Grants	9,025	9,333	(308)
Tuition Fees and Education Contracts	1,868	1,954	(86)
Other Income	796	994	(198)
Investment Income	60	39	21
Total Income	**11,749**	**12,320**	**(571)**
Expenditure (see analysis on next page)	**11,721**	**12,009**	**(288)**
Surplus	**28**	**311**	**(283)**

FINANCIAL HIGHLIGHTS
Income and Expenditure Account continued…

Expenditure

Total expenditure decreased by £288k (2.4%), in comparison to 2009/10 figure of £12.009m. The decrease in expenditure is, in the main, due to the decrease in other operating expenses (£206k) and depreciation (£144k). The table below summarises the main categories of expenditure for 2010/11 and 2009/10:

- The increase in staff costs shown of £110k is in fact a reduction in the staff costs of £241k combined with the FRS 17 adjustment (2011 £5k Dr, 2010 £346k Cr). The staff costs include restructuring costs of £456k (2010 £36k) with the additional costs mitigated by a reduction in core staff costs.
- The largest movements in the reduction in other operating expenditure of £206k are the falls in teaching department costs of £138k (2011 £477k, 2010 £615k), premises costs of £112k (2011 £848k, 2010 £960k) and administration and central services of £124k (2011 £694k, 2010 £818k). These are due to tighter budgets, close cost control and a decrease in core activity. The rise in other expenses of £123k includes additional international agents fees for arranging more non EU students.
- There is no interest payable in the year as the FRS 17 adjustment is a credit of £12k (included in investment income) due to the expected return on scheme's assets exceeding the interest cost. In the previous year, interest on the pension scheme liabilities exceeded the expected return on scheme assets leading to a £48k charge.
- Depreciation has reduced by £144k due to only a £4k charge for the computer equipment (2010 £140k) as these assets have now been written down to a nil net book value.

Expenditure Analysis	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Staff Costs	8,336	8,226	110
Other Operating Expenditure	2,537	2,743	(206)
Interest Payable	-	48	(48)
Depreciation	848	992	(144)
Total Expenditure	**11,721**	**12,009**	**(288)**

FINANCIAL HIGHLIGHTS
Balance Sheet

The balance sheets shows a decrease of £241k in net assets as at 31 July 2011 compared to the previous year end (see table on next page). Significant movements include:

- A decrease in tangible fixed assets of £848k. This is as a result of the depreciation charged in the year.
- A decrease in debtors of £102k. This is a result of the following:
  - Trade debtors (2011 £136k, 2010 £229k) have decreased by £93k. The drop in trade debtors is mainly due to due to the finance team chasing debts quicker and passing debts over to the debt collector when they are overdue.
  - European funding (2011 £383k, 2010 £521k) has decreased by £138k. This drop is due to the amount of ESF funding available being reduced with less income being split amongst the colleges.
  - Prepayments and accrued income (2011 £375k, 2010 £246k) has increased by £129k. This increase is as a result of the inclusion of a fee waiver debtor of £127k which is also included within deferred income and which we have included on page 24 of this report as an unadjusted audit difference.
- An increase in cash and funds held on deposit of £570k. There are many factors impacting upon this and further details are contained in the cash flow statement and note 20 to the financial statements.
- An increase in creditors falling due within one year of £472k. This is a result of the following:
  - Trade creditors (2011 £209k, 2010 £258k) have decreased by £49k. This is mainly due to a balance owed to South Lanarkshire Council in the prior year for £40k for one-off work with no corresponding balance this year.
  - The other taxes and social security creditor (2011 £152k, 2010 £260k) has reduced by £108k. This is mainly due to 'other payroll costs', mainly pensions, being included in the prior year balance (£102k). In the current year, this is correctly included in other creditors.
  - Included within other creditors of £338k are amounts due to other colleges of £86k, student support fund creditors of £27k, other payroll creditors of £86k plus several smaller other creditors balances amounting to £79k.
  - The Lennartz creditor falling due within one year (2011 £220k, 2010 £210k) has increased by £10k. Due to the change in the partial exemption percentage, the quarterly payment to HMRC has increased.

FINANCIAL HIGHLIGHTS
Balance Sheet continued…

Significant movements include:

- Deferred income (2011 £1,590k, 2010 £1,047k) has increased by £543k due to timing of income receipts on 12 projects and includes deferred estates and facilities grants amounting to £457k.
- Accruals (2011 £350k, 2010 £351k) are similar to last year.

- A decrease in the pension liability arising from early retirement of £17k. This is due to the additional provision required being less than the pension payments made in the year.
- The Lennartz creditor falling due after one year has decreased to £1.656m as the result of a repayment of £207k.
- A decrease in the pension liability for the SPF scheme of £387k. The year-end figures are taken from the Hymans Robertson report commissioned by the College. It should be noted that of the fall of £387k, £380k relates to actuarial gains which have been taken directly to reserves via the Statement of Total Recognised Gains and Losses. The remaining £7k was taken to Income and Expenditure account.

Balance Sheet Category	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Fixed Assets	29,617	30,465	(848)
Debtors & Stock	902	1,004	(102)
Cash	2,440	1,870	570
Creditors: Amounts falling due within 1 year	2,859	2,387	(472)
Creditors: Amounts falling due after 1 year	1,656	1,863	207
Early Retirement Provision	605	622	17
Pension Liability	495	882	387
Net Assets	**27,344**	**27,585**	**(241)**

FINANCIAL HIGHLIGHTS
Financial Forecasts

Financial Forecasting

- The initial 2010/11 financial plan forecasted a surplus of £15k excluding 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:
  - Decrease in tuition fees of £103k. The main difference is that UK Further Education was forecast to generate £923k of fees but only produced income of £808k.
  - Increase in other income of £74k is as a result of bank interest received being £28k higher than forecast with nursery income, secondment income and miscellaneous income (as detailed in note 4 to the financial statements) also higher than forecast.
  - Increase in staff costs of £159k is as a result of restructuring costs in the year being higher than forecast.
  - Decrease in other costs of £224k is a combination of the depreciation charge being £54k less than forecast and other operating expenses being carefully controlled with less spent on premises in the year.

- The table below (bottom right) summarises the forecast income, expenditure and cash balances for the College for 2011/12.
- Income is expected to decrease in 2011/12. The reduction in forecast income is due to an anticipated sector-wide cut in SFC grant funding and European Funding which are the main income streams. College expenditure will have to be monitored closely, in particular staff costs, in order to remain in surplus.

Forecast vs. Actual	31 July 2011 (£'000)
Forecast outturn per budget	**15**
Decrease in SFC grant income	(30)
Decrease in tuition fees	(103)
Increase in other income	74
Increase in staff cost (excl. FRS 17)	(159)
Decrease in other costs	224
FRS 17 adjustments	7
Actual outturn at year end	**28**

Forecast Income, Expenditure and Cash Balances for 2011/12	£'000
Income	10,512
Expenditure	10,493
Forecast surplus for the year ending 31 July 2012	**19**
Cash balance at 31 July 2011	2,440
Forecast movement in cash during 2010/11	(1,040)
Resulting cash balance at 31 July 2012	**1,400**

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

Future grant funding
The College in line with the wider public sector is facing significant uncertainty over future funding levels and the impact and scope of public sector funding cuts.
BDO Conclusion
Despite the fact that funding cuts are likely to affect the College in the upcoming financial year and beyond, the College is in a strong cash position with £2.44m in the bank at 31 July 2011 and is forecasting an income and expenditure account surplus for the year ending 31 July 2012 of £19k. Cash and bank is forecast to be £1m lower than at 31 July 2011 mainly due to reduction in the level of creditors over the year. Management have concluded that the College has adequate cash resources for at least twelve months from the date of approval of the financial statements and we consider management's use of the going concern assumption to be appropriate in the circumstances.

Severance scheme
The College has implemented a severance scheme to encourage voluntary redundancy and reduce payroll costs. The College should ensure that the accounting treatment of the severance scheme is correct and that the College severance policy and procedures are appropriate, legal and have been applied consistently.
BDO Conclusion
Severance payments made during 2010/11 were found to comply with the College severance policy and have been correctly accounted for and disclosed in the financial statements.

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

SUMS achievement

The SFC require the College to achieve total SUMs within 2% of its target each year to avoid being in a claw-back position.

BDO Conclusion

The College certificate to SFC shows a WSUMs total for the year to 31 July 2011 of 42,891. This figure is in excess of its target for the year of 42,378 and accordingly there should be no clawback of SFC grant for non achievement of SUMs target.

Financial outturn

Audit Scotland and SFC expect close scrutiny of the College's financial forecasting and achievement of the forecast financial outturn for 2010/11. These bodies also expect the Board of Management to be provided with good quality information throughout the year.

As discussed on page 15, SLC forecast a small surplus of £19k at the outset for 2010/11, prior to any FRS 17 adjustment. There is an immaterial difference of £2k between the forecast and actual audited result for 2010/11 once the FRS 17 adjustment is removed.

BDO Conclusion

The Board of Management has been presented with good quality financial information by the finance team.

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

FRS 17 - retirement benefits

The College participates in The Strathclyde Pension Fund which is a pension scheme providing benefits based on final pensionable pay. The College will quantify its share of the assets and liabilities of the scheme by instructing Hymans Robertson LLP to prepare an FRS 17 report for accounts purposes as at 31 July 2011. The impact on the College's balance sheet of a change in one of the many variables involved in the actuarial valuation can be substantial and the College needs to be satisfied that the assumptions used in the actuarial valuation are correct for the College.

BDO Conclusion

- The actuarial assumptions used in the valuation report have been deemed to be reasonable and the College has correctly incorporated the figures in the report into their financial statements.

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 its compliance with the "*UK Corporate Governance Code (2010)*".

Board of Management: has six formally constituted committees which have specific terms of reference and act with delegated authority from the Board (these are the Audit Committee, Finance Committee, HR Committee, Remuneration/ Chairs Committee, Development Committee and Property & Estates Committee). The terms of reference for each committee were revised and updated during the year.

- ***Composition:*** The Board is comprised of 12 members as at 31 July 2011. As such, the Board has four less than the recommended maximum of 16 members. The Board continues to reflect a wide range of stakeholders, including a local head-teacher, representatives from business & public sector bodies, a solicitor, a CA, the College Principal and Chief Executive, a student representative and a staff representative. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor students of the College). The role of Clerk to the Board of Management is performed by Angela Martin who is the p.a. to the Chief Executive and an employee of the College. The recommended maximum period of office for board members of 12 years has been adhered to.

CORPORATE GOVERNANCE
Continued…

Corporate Governance continued…

Board of Management continued…

- ***Timing:*** The Board exceeded the recommendation for meeting not less than 4 times during the year, with 6 meetings throughout 2010/11. Therefore, the Board met at sufficiently regular intervals during the course of the year in order to discharge its duties effectively.
- ***Development and Evaluation:*** Management are aware of the importance of ensuring that new Board members have a timely induction and appropriate development programme. This year, there were two new full Board members both of whom were provided with an induction by the Clerk to the Board. The Board undertakes a formal and rigorous evaluation of its own effectiveness and that of its committees at regular intervals.

Audit Committee: It was comprised of 3 members as at 31 July 2011. The committee, consisting entirely of non-executives, meets the recommendation that there be at least 2 independent non-executive members. In addition, the audit committee includes a qualified chartered accountant and so meets the recommendation that at least 1 member of the audit committee has recent and relevant financial expertise. Furthermore, it is noted that the Chair of the Board of Management is not a member of the Audit Committee and that no member of the Audit Committee is also a member of the Finance Committee.

Remuneration Committee: The College has a "Chairs Committee" which consists of the Chair of the Board, the Vice Chair of the Board and the Chairs of all sub-committees. This committee meets once a year in order to determine the pay and conditions of senior management.

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 output 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 2010/11:

- Budgetary & financial controls
- Income collection & credit control
- Personnel & payroll
- SUMS

In November 2011, Wylie & Bisset LLP issued the internal audit report for the year ended 31 July 2011. This concluded that the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives.

Risk Management

The Board has ultimate responsibility for the identification and management of risks facing the College. However, much of the work is done by the Risk Management Group (RMG), lead by the Finance Manager, which meets frequently during the year. The RMG is responsible for maintaining an up-to-date risk register, which identifies and assesses risks to the College according to the likelihood and the impact of each risk. It is also the responsibility of the RMG to identify appropriate actions to mitigate the key risks, and these are documented on the risk register. The RMG reports to the Audit Committee each year, and a schedule of changes to the risk register is presented to the entire Board on an annual basis, to review the College's response to identified risks.

During the year, there have been some significant adjustments to the weighting of certain risks, in order to reflect the current economic climate.

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 concluded that the arrangements are adequate and appropriate. The College has in place an over-arching fraud prevention policy, in addition to a whistle-blowing policy. All key policies are readily available to staff on the College's intranet. The fraud policy includes details of how to respond to any frauds identified, although it is noted that no frauds were identified by the College in 2010/11. 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)

The college has utilised the model style of OFR contained in the model financial statements which can be found on the SFC website. The college OFR complies with the additional guidance on the content of the OFR issued by the Scottish Funding Council on 2 October 2009. The information given in the OFR by the college is consistent with the financial statements.

PREPARATION OF THE FINANCIAL STATEMENTS

South Lanarkshire College East Kilbride

Preparation of the Financial Statements

Our Audit Planning Memorandum 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 preliminary set of financial statements on 11 October 2011 which contained the pages from the Income and Expenditure account onwards. On 19 October 2011, the seventh day of our audit fieldwork, we received financial statements which were largely complete. This draft contained all pages of the financial statements.

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 of a good standard.

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

Timing:	May 2011	September 2011	10 October 2011	November 2011	December 2011
Key audit tasks & meetings	Audit Planning Memorandum to Management and Audit Committee	Audit information requirements letter issued	Final audit fieldwork commenced	Audit Clearance Meeting 8 November Draft Annual Report to the Board 15 November	Submission of Audit Opinion and Annual Report to the Board

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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.

Total unadjusted audit differences identified by our audit work would increase the reported surplus of £28k by £2k. The Board of Management will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole. These are set in the table below:

Unadjusted Audit Differences		Income & Expenditure Account		Balance Sheet	
	£’000	DR £’000	CR £’000	DR £’000	CR £’000
Surplus for the year	28				
Deferred income				127	
Accrued income debtor					127
Being removal of fee waiver debtor and creditor					
Pension cost			2		
Provisions for liabilities				2	
Being reduction in pension provision per BDO calculation					
Total adjustments on this page		**0**	**2**	**129**	**127**
Surplus for the year after adjustments on this page	**30**				

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