



# Stow College

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

Audit for the year ended 31 July 2011



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# EXECUTIVE SUMMARY



## Financial Highlights

The College achieved a surplus of £24k (2010 £50k) on its income and expenditure account for the year prior to FRS17 adjustments for the Strathclyde Pension Scheme (“SPF”). After a credit of £25k to income and expenditure account for FRS17 adjustments (2010 credit of £485k) the overall surplus for the year was £49k (2010 £535k).

The financial statements disclose total reserves of £3.918m (2010 £3.416m). The 2011/12 financial forecast return anticipates a surplus of £23k, excluding adjustments in relation to FRS 17.

## Corporate Governance

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

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

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

## Financial Statement Audit

We have completed our audit work in respect of the financial statements of the College and are satisfied that they present a true and fair view of its financial position for the year ended 31 July 2011. Following approval of the financial statements by the Board of Management on 7 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 financial statements 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 financial statements.

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

The 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 Stow 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

- Accounting for SFC review
- Contractual dispute
- Severance scheme
- FRS 17 - retirement benefits
- Freehold land and buildings revaluation
- SUMS achievement
- Future funding
- **Note:** There were no management letter points raised

## Unadjusted Audit Differences

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

# OVERVIEW, SCOPE AND INDEPENDENCE

## Continued...



### Key areas

#### Scope

### Summary

The accounting rules and regulations applied to Further Education Colleges are specifically laid out in various documents as discussed on page 8 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents.

We can confirm that in preparing the financial statements the College has complied with the Accounts Direction for Scotland's colleges and universities issued under circular SFC/35/2008.

The audit of Stow College was performed in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. This report has been issued to College management and will be considered by the Governance and Audit Committee.

#### Independence

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to "those charged with governance". This term refers to the Board of Management in our view and we confirmed our independence to them in a letter on 3 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

### Audit Framework

BDO LLP was appointed by Audit Scotland as external auditor to Stow College for 5 years covering the financial years 2006/07 to 2010/11. This year was the fifth of the five-year appointment by the Auditor General for Scotland as external auditors of Stow College (“the College”). This report to the College Board of Management and Auditor General for Scotland provides our opinion and highlights issues arising from our work in relation to our audit work for 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



#### Audit Framework

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

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

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

# AUDIT FRAMEWORK

## Continued...



College Guidance



### Audit Framework

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

### Financial Highlights

• **Income and Expenditure Account:** The College achieved a surplus of £49k, 0.4% of total income in respect of the year-ended 31 July 2011 (2009/10: £535k and 3.7%, Forecast: £47k and 0.5%). This represents a £486k decrease on the prior year and a £2k increase on forecast. The main reason for the decreased surplus compared to last year relates to the incorporation of the FRS 17 adjustments for the Strathclyde Pension Scheme which resulted in a credit to Income and expenditure account of £485k during 2010. The corresponding credit for 2011 was only £25k. Other negative income variances arose due to the SFC grant reduction. These were offset by cost reductions in staff and other operating expenses. Total income decreased by £951k (6.6%) on the prior year. The decrease arose through decreased SFC grant funding (through the strategic change grant). Tuition fees and other income were marginally up on last year but the increase was not sufficient to fully compensate for the reduction in the main grant funding.

• **Balance Sheet:** The financial statements report net assets at 31 July 2011 of £5.916m, which have risen by £364k. The increase is attributable to the £49k surplus generated in the year plus a revaluation surplus of £720k in the year. There was also a net decrease in deferred capital grants of £138k and an actuarial loss in respect of the pension scheme of £267k. The balance on the Revaluation Reserve carried forward as at 31 July 2011 is a surplus of £5.617m (31 July 2010: £5.051m). See page 12 for further comments on the balance sheet.

### Cash Flow

During 2010/11, the College experienced a net inflow of cash of £943k (2009/10: outflow of £474k).

### Financial Forecast

The initial 2010/11 financial plan forecasted a surplus of £47k. The surplus achieved was similar to forecast with the decrease in SFC grant income relating to the reduced strategic change grant and the recurrent grant reduction, being offset by the decrease in payroll costs due to staff restructuring and cost savings in other operating expenditure.

The forecast of income, expenditure and cash balances for the College for 2011/12 shows that both income and expenditure are expected to fall resulting in a small surplus of £23k.

# 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 46,509 and the College delivered 46,241 (2010 45,391). As a result, the College will not be liable to repay any recurrent grant to the Scottish Funding Council in 2011/12 as it delivered WSUM's within the 2% variance allowed.
- A significant proportion (75%) of income comes from the Scottish Funding Council. The College's FE recurrent grant increased by £83k to £8.357m as the WSUMs activity level increased. This increase was augmented by a strategic change grant release of £282k from a grant of £981k received during 2010/11 to allow the College to reduce its cost base. £699k of the strategic grant income received has been treated as deferred income to be matched with the relevant costs when they are incurred. Last year the strategic grant of £1.4m was received and released to income and expenditure account in full.
- Tuition fee and education contract income increased by £22k to £2.72m.
- Other income increased by £19k. Lower grant income from both the European Union and other sources has been offset by increased cost recharges and hire charges to arrive at the overall increase in other income.

Income and Expenditure Account	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Scottish Funding Council Grants	10,031	11,022	(991)
Tuition Fees and Education Contracts	2,722	2,700	22
Other Income	606	587	19
Investment Income	6	7	(1)
<b>Total Income</b>	<b>13,365</b>	<b>14,316</b>	<b>(951)</b>
Expenditure (see analysis on next page)	(13,316)	(13,781)	(251)
<b>Surplus</b>	<b>49</b>	<b>535</b>	<b>(486)</b>

# FINANCIAL HIGHLIGHTS

## Income and Expenditure Account continued...



### Expenditure

Total expenditure fell by £465k (3.4%), in comparison to 2009/10, to £13.316m. This conscious effort to cut costs in the face of future funding cuts has contributed to the result for the year. The decrease in expenditure is, in the main, due to a reduction in staff costs and other operating expenditure with the most significant movements detailed below. The table below summarises the main categories of expenditure for 2010/11 and 2009/10:

- a decrease in staff costs of £310k primarily as a result of staff numbers being reduced by 14. Salary increases of 1.5% reduced savings arising from reduced staff numbers. Staff costs also include £189k (2010- £634k) of restructuring costs. Last year the effect of restructuring costs was largely masked by an FRS 17 credit adjustment of £583k. £545k of this credit was as a result of the change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI). In accordance with the treatment recommended by Hymans Robertson LLP, the effect of this change was taken through income and expenditure account as a negative past service cost. There is no corresponding reduction for 2010/11 and pension costs are reflected at full cost of £861k (2010 - £371k)
- a decrease in other operating expenses of £101k as a result of a reduction in cuts to both teaching department costs and teaching service/learning support/training & development costs.
- an decrease in interest payable due to the FRS 17 accounting treatment has resulted in an interest charge of £17k compared to £98k last year, as the interest cost exceeded the expected return on assets.

Expenditure Analysis	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Staff Costs	8,882	9,192	(310)
Other Operating Expenditure	3,486	3,587	(101)
Depreciation	931	904	27
Interest Payable	17	98	(81)
<b>Total Expenditure</b>	<b>13,316</b>	<b>13,781</b>	<b>(465)</b>

# FINANCIAL HIGHLIGHTS

## Balance Sheet



The balance sheet shows an increase of £364k in net assets as at 31 July 2011 compared to the previous year end. Significant movements include:

- A £479k increase in the net book value of fixed assets. The college had additions to fixed assets of £690k, depreciation of £931k and a £720k uplift on revaluation of land and buildings arising from the revaluation of land and buildings on 31 July 2011.
- An increase in cash of £943k. The components of this are as described in the cash flow statement with the unused portion of the SFC strategic grant of £699k and the bursary funds excess of £352k being significant contributors to the increase in the cash balance.
- An increase in creditors (due both before and after one year) of £809k. This is as mainly as a result of £699k of the SFC strategic grant being treated as deferred income and the increase in the bursary fund creditor of £335k. Trade creditors have fallen by £132k compared with last year as a result of a difference in the timing of a payment run. A £95k accrual has been included in respect of compensation and legal expenses in connection with a dispute between the college and a contactor re the installation of equipment at the college.
- An increase in the size of the pension liability of £242k, which consists mainly of actuarial losses of £267k which have been reflected in the Statement of Total Recognised Gains and Losses.

Balance Sheet Category	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Fixed Assets	8,633	8,154	479
Debtors	466	473	(7)
Cash	2,902	1,959	943
Creditors: Amounts falling due within 1 year	(2,861)	(1,691)	(1,170)
Creditors: Amounts falling due after 1 year	(1,097)	(1,458)	361
Pension Liability	(2,127)	(1,885)	(242)
<b>Net Assets</b>	<b>5,916</b>	<b>5,552</b>	<b>364</b>

# FINANCIAL HIGHLIGHTS

## Financial Forecasts



### Financial Forecasting

- The initial 2010/11 financial plan forecasted a surplus of £48k before any FRS 17 adjustments. The table below (bottom left) shows the reconciliation between the forecast outturn and the actual result for the year. The forecast figures are very much in line with the actual results and for an organisation with income of £13.3m the small differences do not require any further explanation.
- The table below (bottom right) summarises the forecast income, expenditure and cash balances for the College for 2011/12.
- Both income and expenditure are expected to fall in 2011/12, resulting in a similar surplus to 2010/11, excluding FRS 17 adjustments. The reduction in income will be due to the sector-wide cut in SFC grant funding in addition to a fall in tuition fee income. College expenditure will have to be monitored accordingly, in particular staff costs, in order to achieve the forecast surplus.

Forecast vs. Actual	31 July 2011 £'000	31 July 2010 £'000
<b>Forecast outturn per budget</b>	<b>48</b>	<b>26</b>
(Decrease)/Increase in SFC grant income	(17)	416
Increase in other income	60	131
Decrease / (Increase) in payroll costs	5	(814)
Decrease / (increase) in other operating expenditure	(72)	291
FRS 17 adjustments	25	485
<b>Actual outturn at year end</b>	<b>49</b>	<b>535</b>

Forecast Income, Expenditure and Cash Balances for 2011/12	£'000
Income	12,037
Expenditure	(12,014)
<b>Forecast surplus for the year ending 31 July 2012</b>	<b>23</b>
Cash balance at 31 July 2011	2,902
Forecast movement in cash during 2011/12	(1,150)
<b>Resulting cash balance at 31 July 2012</b>	<b>1,752</b>

# KEY ACCOUNTING AND AUDIT MATTERS

## From the Audit Planning Memo & Other Matters



### Accounting for SFC Review

- In November 2008 SFC carried out a review of fundability of certain College programmes which resulted in two programmes being deemed ineligible for funding. The College was required to repay SUMs viewed as being inappropriately claimed for years dating back to financial year 2003/04. The judgement by SFC regarding the repayment of grant was finalised in November 2009 with the College required to repay £2.885m of funding over a 7-year period. This liability was recognised in the financial statements for the year ended 31 July 2009 and the first repayment of £1.061m was made in the year ended 31 July 2010. A further repayment of £381k was made during the year ended 31 July 2011.
- At the same time to allow the college to reduce its cost base, SFC agreed to provide strategic change funding to allow the pace of change to be managed over a five year period. The amount of strategic change grant received in 2010/11 was £981k. The college recognised £282k of this in income and expenditure account with the remaining £699k being treated as deferred income to match income with anticipated future expenditure.

### BDO Conclusion

The accounting treatment of the liability due to SFC and the strategic change grant has been correctly accounted for by the College in the financial statements. The strategic change funding has been recognised in the income and expenditure account to match income and expenditure in relation to the cost base changes in accordance with the award documentation.

### Contractual Dispute

- During 2010/11 a £95k charge was reflected in the income and expenditure account with a corresponding accrual set up. This is in respect of the anticipated settlement costs of a dispute between the college and a contractor regarding the installation of equipment.

### BDO Conclusion

Based upon examination of relevant correspondence and discussions with management, our conclusion is that the college has correctly accounted for the anticipated costs in respect of the dispute.

# KEY ACCOUNTING AND AUDIT MATTERS

## From the Audit Planning Memo & Other Matters Continued...

### Severance scheme

- The College has implemented a severance scheme to encourage voluntary redundancy and reduce ongoing 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.

### FRS 17

- The College participates in The Strathclyde Pension Fund which is a pension scheme providing benefits based on final pensionable pay. The College has quantified 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.

# KEY ACCOUNTING AND AUDIT MATTERS

## From the Audit Planning Memo & Other Matters Continued...

### Revaluation of land and buildings

- On 31 July 2011 a revaluation of college land and buildings was performed by Montagu Evans LLP, a firm of professional valuers. The valuation of £6.92m on a depreciated replacement cost basis has been incorporated into the financial statements giving rise to an increase of £720k in the revaluation reserve.

### BDO Conclusion

We are satisfied that the revaluation has been performed by an appropriately qualified person and that the accounting for the revaluation has been correctly reflected in the financial statements in accordance with FRS 15 - Tangible Fixed Assets.

### SUMs Achievement

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

### BDO Conclusion

The College certificate to SFC as verified by Wylie & Bisset LLP shows a WSUMs total for the year to 31 July 2011 of 46,241. This figure is short of its target for the year of 46,509. The shortfall is within the 2% allowance and accordingly there should be no clawback of SFC grant for non achievement of SUMs target.



# KEY ACCOUNTING AND AUDIT MATTERS

## From the Audit Planning Memo & Other Matters Continued...

### Future 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 £2.9m in the bank at 31 July 2011 and is forecasting an income and expenditure account surplus for the year ending 31 July 2012 of £23k. 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.

# 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 5 formally constituted committees which have specific terms of reference and act with delegated authority from the Board (Governance and Audit Committee, Finance and General Purpose Committee, HR Management Committee, Remuneration Committee and Search Committee).

• **Composition:** the Board is comprised of 15 members as at 31 July 2011; hence, the Board has no more than the recommended maximum of 16 members. The skills of the members of the Board include those with relevant skills and expertise in finance, customer care, change management and management consultancy. The College representatives include the Principal, a member of the teaching staff, a member of the support staff and two student representatives. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor student of the College). The role of College Clerk to the Board of Management is performed by Brian Schoular, thereby meeting the best practice that the role is held by an individual who is independent of College management. The recommended maximum period of office for board members of 12 years has been adhered to.

• **Timing:** met the recommendation for meeting not less than 4 times during the year, with 4 meetings throughout 2010/11. Therefore, the Board met at sufficiently regular intervals during the course of the year in order discharge its duties effectively.

# CORPORATE GOVERNANCE

## Continued...



### Corporate Governance continued...

#### Board of Management continued...

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

**Governance and Audit Committee:** is comprised of 5 members as at 31 July 2011. The committee, with 5 non-executives, meets the recommendation that there be at least 2 independent non-executive members. The committee had one qualified accountant who retired in November 2010. Whilst the committee no longer has a qualified accountant, it contains relevant industry management and financial experience. It was noted that the Chair of the Board of Management was not also a member of the Governance and Audit Committee and that no member of the Governance and Audit Committee was also a member of the Finance and General Purpose Committee.

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

### System of Internal Control

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

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

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

# CORPORATE GOVERNANCE

## Continued...



### Review of Internal Audit

Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality. Internal audit services are provided by Wylie & Bisset LLP. An assessment was made of the adequacy of the internal audit outputs and it was concluded that we as external auditors were able to use the work of internal audit in planning our own procedures. Accordingly cognisance was made of the work of internal audit in the following areas during 2010/11:

- Strategic and operational planning
- I T Systems
- Corporate governance
- Student SUMs
- FES audit

On 7 September 2011, Wylie and Bisset LLP issued the internal audit report for the year ended 31 July 2011. This concluded that, the College has an adequate framework of control, based on the systems examined.

### Risk Management

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

# CORPORATE GOVERNANCE

## Continued...



### Prevention and Detection of Fraud and Corruption

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



Preparation of the  
Financial Statements



Our Audit Planning Memorandum issued to the College in May 2011 outlined the various stages of the audit process. In relation to the key factors of the production of the financial statements, our assessment was as follows:

**Completeness of Draft Financial Statements:** We received a set of draft financial statements on 4 October 2011, the first day of audit fieldwork. The draft accounts were of very good quality. Most issues were resolved by the end of fieldwork and a revised draft received on 12 October 2011. Any outstanding matters were satisfactorily resolved prior to receipt of the final accounts and audit sign off.

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

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

# APPENDIX 1

## Unadjusted Audit Differences


### Unadjusted Audit Differences



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

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

Unadjusted Audit Differences	£'000	Income & Expenditure Account		Balance Sheet	
		DR £'000	CR £'000	DR £'000	CR £'000
Surplus for the Year before Audit Adjustments	49				
No unadjusted audit differences were noted					
Total Adjustments					
Surplus for the Year after Audit Adjustments	49				



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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