Key Issues Memorandum

Carnegie College

For the year ended 31 July 2012

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To the Board of Carnegie College and the Auditor General for Scotland

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The purpose of this memorandum is to highlight the key issues affecting the results of the College and the preparation of the College's financial statements for the year ended 31 July 2012. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print' (Section 11).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP

Contents

1 Executive summary

Financial reporting issues	
Audit opinion	• We have issued an unqualified opinion on the financial statements for the year ended 31 July 2012.

Controls issues	
IT policies	• We understand that IT policies have not been updated since 2008. We recommend these should be updated and any changes fully communicated to all staff.
Other findings	• We understand there are no formal policies surrounding journals entries. We recommend a formal policy for posting and authorisation of journals is implemented.

Audit issues	
Key areas of audit risk	• We identified the key areas of audit risk to be in relation to valuation of fixed assets, completeness of income and completeness of employee remuneration. We noted no significant issues in relation to these areas. Our findings are further detailed at Section 3.
Audit adjustments	• We identified 8 misstatements during our audit fieldwork, 2 of which have been adjusted through the financial statements for the year ended 31 July 2012. The unadjusted misstatements would reduce the reported surplus by £73k. Our misstatements are further detailed at Section 7.

2 Financial Results

2.1 Income and expenditure account

Table 1: Income and Expenditure account

	2011-12 £'000	2010-11 £'000
Income	20,701	22,023
Expenditure	20,819	22,600
Gain on disposal	265	-
Surplus/(Deficit) for the year	**147**	**(577)**

Source: 2011-12 financial statements

For the year ended 31 July 2012, the College reported a surplus of £147,000 (2011: a deficit of £577,000). Table 1 above highlights the financial results for the year.

The College originally budgeted for a small deficit for the year ended 31 July 2012.

Income

Income has decreased overall by £1,322k (6%), reflecting a reduction in SFC grant income of £1,366k, decreased tuition fees of £140k and an increase in other income of £184k.

The decrease in SFC funding reflects a 10% decrease in the main recurrent teaching grant as a result in a cut in funding by the Scottish Government.

The decrease in tuition fees compared to the prior year (2012: £5,465k, 2011: £5,605k) relates to a combination of a change in the type and mix of course selected by students, and the cancellation of courses as a result of the capping of fee waiver.

Other grant income has decreased by 14% mainly due to a reduction in the amount received from European funds. No amounts have been received in year in relation to ESF.

Other operating income has increased by 5% mainly due to one off items, particularly in relation to the setup of the new prison contract.

Expenditure

Expenditure has decreased by £1,781k (8%), mainly due to a decrease in staff costs of £891k, a decrease of £194k in exceptional restructuring costs, a significant decrease in other operating expenses of £820k, an increase in depreciation of £90k and an increase in interest payable of £34k .

Overall staff numbers have decreased by 14, reflecting a reduction in staffing across all areas of the College. Exceptional restructuring costs of £324k relate to further redundancies in the year (2011: £518k) in an endeavour to make efficiencies in line with continued reductions in available funding.

Other operating expenses have decreased by 14% mainly due to the outsourcing of catering, a reduction in corporate activities and one off items in the prior year including a significant bad debt write off.

2.2 Balance sheet

Table 2: Consolidated Balance Sheet

	2011-12 £'000	2010-11 £'000
Fixed assets	17,262	18,378
Current assets	1,661	1,514
Current liabilities	(1,861)	(2,117)
Creditors due over a year	(3,426)	(3,685)
Provisions	(485)	(422)
Pension Liability	(4,951)	(1,985)
Net Assets	**8,200**	**11,683**
Deferred capital grants	8,151	8,649
Endowments	290	453
Income& Expenditure Reserve	1,787	1,506
Pension Reserve	(4,951)	(1,985)
Revaluation Reserve	2,923	3,060
Total Funds	**8,200**	**11,683**

Source: 2011-12 financial statements

For the year ending 31 July 2012, the College held net funds of £8.2 million (2011: £11.7 million). Table 2 highlights the key balance sheet items for the year.

Fixed assets

The decrease in the value of tangible fixed assets of £1,026k, is mainly due to depreciation charge in the year of £1,307k. There were additions of £280k mainly in relation to purchase of a new computers and related software.

Investments have decreased by £90k due to the disposal of preference shares in Ecom.

Current Assets

Debtors have increased by £502k over the prior period due to the timing of payments.

Expendable endowment relates to the Whitlock project and the reduction of £163k at the year end reflects the timing of management recharges.

Cash balances have decreased by £185k.

Current liabilities

Trade creditors have decreased by£81k mainly as a result of the outsourcing of catering in the year to Sodexo.

The movements within accruals and deferred income relates to the release of £235k in relation to the disposal of land for the Holiday Inn.

Creditors due over a year

Creditors due over a year have decreased by £259k to reflect payments made in respect of the bank loans and finance leases as in prior years.

Pension Liability

The pension deficit of £4,951k reflects the College's share of the assets and liabilities in the Fife Council Pension Scheme, which is accounted for as a defined benefit scheme under FRS 17. The movement of £2,966k mainly reflects an increase in the present value of wholly funded obligations due to changes in the actuarial assumptions.

Deferred capital grants

The decrease in deferred capital grants of £498k relates to amounts released to the Income and Expenditure Account in the year.

3 Key audit issues

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and we provide details of additional matters that arose during the course of our work.

3.1 Status of audit

Our audit is complete following our discussions with management.

3.2 Matters identified at the planning stage

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum.

Our responses to the matters identified at the planning stage are detailed below.

3.3 Matters identified during the course of the audit in relation to fraud

During the course of the audit we have identified no issues in relation to fraud.

3.4 Matters identified during the course of the audit in relation to related parties

During the course of the audit we have identified no material issues in relation to related parties.

3.5 Matters identified during the course of the audit in relation to compliance with relevant laws and regulations

During the course of the audit we have identified no issues in relation to non-compliance with relevant laws and regulations.

	Issue	Auditor commentary
1	**Financial Statement Risks – Fixed Assets** There is a potential risk that fixed assets are not fairly stated in the financial statements for the year ended 31 July 2012.	Our testing involved reviewing costs, physically verifying a sample of fixed assets and performing a depreciation reasonableness based on the accounting policies in place during the year. As part of our testing we noted that software and IT licences are capitalised within tangible fixed assets, as permitted under the SORP. However, in accordance with best practice, we recommend these costs should be classified separately as intangible fixed assets and amortised accordingly. Our proposed adjustment has been included at section 7. Based on our testing performed, we are satisfied that fixed assets are not materially misstated within the financial statements for the year ended 31 July 2012. **Management comment:** Management do not consider it necessary to re-categorise these assets for the remainder of the College's status as a separate financial entity.
2	**Financial Statement Risks - Income** There is a risk that income is not completely and accurately stated in the financial statements for the year ended 31 July 2012.	Our testing involved documenting the various income streams following review of fund provider documentation and discussions with key members of Carnegie College finance team. We subsequently agreed the awards from the fund provider documentation to bank statements. We then performed analytical review of income to ensure material movements were reasonable and in line with expectations. Based on our testing performed, we are satisfied that income is not materially misstated within the financial statements for the year ended 31 July 2012. **Management comment:** Management have no further comment.

3	**Financial Statement Risks – Employee Remuneration** There is a risk that employee remuneration expenses are not completely and accurately stated in the financial statements for the year ended 31 July 2012.	Our testing involved reconciling employee remuneration to monthly payroll reports produced by the payroll department. We also performed reasonableness on the year end employee remuneration accrual . Based on our testing performed, we are satisfied that employee remuneration is not materially misstated within the financial statements for the year ended 31 July 2012. **Management comment:** Management have no further comment.

3.6 Matters identified during the course of the College audit

	Issue	Auditor commentary
1	**Investments – Joint Venture** The College operates a joint venture with Lauder Learning Limited, which is included at an investment carrying value of £404k within the financial statements at 31 July 2012. We understand the nursery property is then subleased to Careshare Limited, the other party to the joint venture, on an arm's length open market basis.	Our testing noted this investment is included within the financial statements on a historic cost basis. Post year end the College obtained a desktop valuation of the property from Christie & Co giving an indicative freehold investment valuation of between £850k to £950k. This means an investment value for the College share of the property of between £425k to £475k. We have reviewed and agreed the rental yield of 7.5% as reasonable. Based on our testing performed, we are satisfied that the carrying value of the investment is not materially misstated within the financial statements for the year ended 31 July 2012. **Management comment:** Management have no further comment.

	Issue	Auditor commentary
2	**Investments – Former Subsidiary** We understand the College held £90k of redeemable preference shares in Ecom, a former subsidiary undertaking. We further understand that during the year the College entered into an agreement with Ecom to redeem this investment for £100k in cash and £20k of 'work in kind'.	Our testing noted that the full transaction has been recognised in the financial statements for the year ended 31 July 2012. However, we understand that the final legal agreement of these terms has not yet been concluded and as such the income should not be recognised in the current year. We have proposed an adjustment to reduce income by £30k, as detailed in section 7. Following discussion with management this has been included within our unadjusted misstatements on the basis of its immaterial impact on the financial statements as at 31 July 2012. **Management comment:** Management have no further comment.
3	**Trade Debtors** We understand that at the year end there is a balance of £85k outstanding from JobCentre Plus which originate from 2008. We further understand that the College has created a bad debt provision of £43k against this balance at 31 July 2012.	Our testing noted that no further amounts have been received from this debtor post year, up to and including our audit fieldwork. We understand the delay in receiving full payment of the outstanding balances is due to the College being unable to provide JobCentre Plus with the full documentation. We have proposed an adjustment to increase the bad debt provision by £42k for the remaining balance, as detailed in section 7. Following discussion with management we understand the College will be able to provide sufficient documentation to ensure payment of the unprovided balance of £42k. We understand if the balance remains outstanding at the year end 31 July 2013 the full amount will be provided. We have agreed this as reasonable on the basis of materiality. **Management comment:** The College remains committed to realising the balance of the debt.

	Issue	Auditor commentary
4	**Deferred Income** We understand the College disposed of land, for the building of the Holiday Inn, in exchange for a combination of cash and shares in the year ended 31 July 2006. We further understand the shares were subsequently sold in the year ended 31 July 2007, and the gain on disposal was fully taken to the Income and Expenditure Account in the year. However, we understand the cash element of the original transaction was treated as deferred income to be released over a period of 50 years.	We have reviewed the transaction and note that the provision of a 99 year ground lease is effectively a disposal of the asset, as substantially all risks and rewards pass to the new owner. Accordingly the proceeds received should have been treated as gain on disposal and taken directly to the Income and Expenditure Account. We have proposed an adjustment to release the remaining deferred income balance of £235k, as detailed in section 7. Following discussions with management the financial statements have been amended to reflect this adjustment. **Management comment:** This was agreed and the proposed adjustment implemented.
5	**Deferred Capital Grants** We understand deferred capital grants totalling £90k were included as additions in the year ended 31 July 2012, although these were actually received in the year ended 31 July 2011. We further understand this amount was incorrectly classified as accruals within the financial statements.	We have proposed an adjustment to restate the financial statements to correctly disclose the £90k as additions to deferred capital grant in the year ended 31 July 2011, as detailed in section 7. Our testing noted that these deferred capital grants remain unspent at 31 July 2012 and as such no further release to the Income and Expenditure Account is required at the year end. Following discussions with management the financial statements have been amended to reflect this adjustment. **Management comment:** This was agreed and the proposed adjustment implemented.

4 Governance

4.1 Introduction

The Board are responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Audit Committee has a role in monitoring these arrangements.

	Issue	Auditor commentary
1	**Financial position** As part of our audit planning procedures we noted that the forecast for 2011-12 was a small deficit. In the current economic climate publicly funded bodies are facing increasing financial constraints and consequently efficiency savings and cost reduction plans are a vital tool in staying within allocated budgets.	We have reviewed the processes in place in relation to budget monitoring, financial systems, cash flow forecasting and monitoring and treasury management as part of the audit field work and have noted no significant issues. Based on our review, we are satisfied these processes are being used effectively in controlling and monitoring of the financial position of the College. **Management comment:** Management have no further comment.
2	**Procurement** Public procurement in Scotland is subject to stringent UK and European legislation, together with specific requirements of the Scottish Government and Scottish Funding Council. There is a potential risk that the policy is not always followed by all members of staff.	As part of our regulatory review of the College, we have reviewed the procurement policy against legislation and specific further education requirements and have noted no significant issues. Based on our review, no issues were noted in relation to the adopting of this policy by the College. **Management comment:** Management have no further comment.

3	**Proposed merger** As part of our audit planning procedures we noted the College was in discussion with Adam Smith and Elmwood Colleges to create a merged Regional College for Fife. We understand the date for this proposed regionalised College is now1 August 2013. We further understand a Fife Regional College Partnership Board has been established to consider all aspects of governance and management of the proposed new regional College.	We will continue to monitor the College's plans to transition to a new merged organisation and engage with the Audit Committee members regarding the implications for the College. As the new proposed regionalised College is not due to be established until1August 2013 there are no further disclosures required for the financial statements for the year ended 31 July 2012. **Management comment:** Management have no further comment.

5 Performance

5.1 Introduction

All public bodies in Scotland have a duty to secure Best Value and continuous improvement. Carnegie College continues to work with the Scottish Government to identify further areas of efficiencies and savings.

	Issue	Auditor commentary
1	**Audit Scotland national reports** In August 2010, Audit Scotland published a national report on how public bodies are beginning to respond to the challenge of a significant reduction in budget. The report provides an overview of budgeting issues across the public sector and there is some key commentary on the reduction of the funding to the Further and Higher Education sector and the impact of the removal of the cap on tuition fees in England and Wales. In September 2010, Audit Scotland published a national report on the governance arrangements across the public sector. The report focused on three areas and provided recommendations on the following: • the role and accountability of boards • the skills and expertise of board members • how boards operate.	As part of our regulatory review of the College, we have reviewed the national reports and noted issues facing the College. Due to the regionalisation and the on-going movement in the governance arrangements for Colleges it was understandable that the evaluation against the report has not yet been undertaken. We recommend that going forward further consideration is given to the arrangements in place. **Management comment:** Management have no further comment.

6 Financial reporting matters

6.1 Review of principal accounting policies

We have reviewed the financial statements and present our view of the key accounting policies below, bringing to your attention in particular any significant judgements and estimates.

Accounting area	Summary of policy	Comment
Consolidated reporting	• The consolidated financial statements include the College and its wholly owned subsidiary undertaking, Carnegie Enterprise Limited. Intra-group sales and profits are eliminated fully on consideration. The College has no student union. All financial statements are prepared to a 31 July year end.	• The accounting policy complies with accounting standards and has been applied correctly.
Revenue	• Income from grants, contracts and other services rendered is included in proportion to the extent of completion of the contract or services concerned. • Endowment income is released through the income & expenditure account in line with related expenditure.	• The accounting policy complies with accounting standards and has been applied correctly.
Depreciation	• Freehold land is not depreciated. • Freehold buildings are depreciated over their expected useful life, this varies from 20 to 50 years as determined by professional opinion and valuation. • Equipment is depreciated on a straight line basis at a rate of between 10-33% dependant on the category of asset.	• The accounting policy complies with accounting standards and has been applied correctly.

Accounting area	Summary of policy	Comment
Agency arrangements	• The College acts as an agent in the collection and payment of Student Support Funds. These funds are excluded from the College Income and Expenditure Account and movements have been disclosed in the notes to the accounts. Where the College has more discretion in the manner in which specific funds are disbursed, and those funds do not meet the definition of agency funds, the income and expenditure relating to those funds are shown in the College Income and Expenditure Account.	• The accounting policy complies with accounting standards and has been applied correctly.

6.2 Commentary on key judgements and estimates

Going concern

We have reviewed management budgets for the period to July 2013 and management accounts with commentary to September 2012. We are satisfied that the College is projected to operate with adequate headroom within its funding.

We recommend that management continues to closely monitor operations and maintains tight control of its working capital.

7 Audit adjustments

7.1 Misstatements

We are required to communicate all uncorrected misstatements to you, other than those considered to be clearly trivial. We have requested that management correct these misstatements and have included (where applicable) the reasons given by them as to why the misstatements remain uncorrected.

7.2 Impact of misstatements

All adjusted misstatements are set out in detail below.

The impact of the adjusted misstatements on the financial statements was an increase in reported surplus of £235k.

The impact of the unadjusted misstatements on the financial statements would be a decrease in reported surplus of £73k.

There is no impact on the audit report as a result of these unadjusted misstatements.

Misstatements in relation to the prior year

During the course of our audit we obtained audit evidence that the opening balances in relation to deferred capital grants contain misstatements. The impact of these misstatements on this year's income and expenditure account is £nil. There is no impact on our audit report as a consequence of these misstatements.

7.3 Adjusted misstatements

Journal reference	Detail	Balance sheet		Income & Expenditure Account		Income effect
		Dr	Cr	Dr	Cr	
1	DR Deferred Income	235,350				
	CR Gain on disposal of asset				235,350	235,350
	Being release of deferred income in relation to disposal of land for Holiday Inn					
2	DR Deferred Capital Grants - Additions	90,000				
	CR Deferred Capital Grants - Opening Balance		90,000			
	Being reclassification of deferred capital grants received in prior year					
Increase in reported surplus for the year						**235,350**
Adjustments in respect of prior year:						
1	DR Deferred Income	90,000				
	CR Deferred Capital Grants - Additions		90,000			

7.4 Unadjusted misstatements

Journal reference	Detail	Balance sheet Dr	Balance sheet Cr	Income & Expenditure Account Dr	Income & Expenditure Account Cr	Income effect
1	DR Fixed Assets	4,556				
	DR Revenue			263		(263)
	CR Deferred Income		4,819			
	Being reallocation of fixed assets					
2	DR Fixed Assets	5,527				
	CR Deferred Income		5,527			
	Being reallocation of fixed assets					
3	DR Intangible Fixed Assets	737,174				
	DR Fixed Assets - Equipment Depreciation	352,666				
	CR Fixed Assets - Equipment		737,174			
	CR Intangible Fixed Assets - Amortisation		352,666			
	Being reclassification of software and IT licences					
4	DR Revenue			30,000		(30,000)
	CR Accrued Income		30,000			
	Being removal of income incorrectly recognised in current year					
5	DR Bad Debt Provision			42,669		(42,669)
	CR Trade Debtors		42,669			
	Being further provision for JobCentre Plus outstanding balances					

8 Design effectiveness of internal controls

8.1 Accounting system and internal control

Our audit is not designed to identify all significant weaknesses in the College's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of the College. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities or to include all possible improvements in internal control.

See 'The small print' for further details of our approach in respect of internal controls.

8.2 Key findings

Key to assessment of internal control deficiencies

🔴	Material weakness - risk of material misstatement
🟡	Significant deficiency - risk of significant misstatement
🟢	Deficiency - risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendation
1		**Journal Entries** We understand there are no formal policies surrounding journal entries. We further understand that the system allows the Director of Finance to post journals. However, these are not required to be authorised by another key member of the finance team. Our testing identified no journals having been posted by the Director of Finance in the year ended 31 July 2012. Poorly-controlled journal posting processes mean that errors or fraud can occur and go undetected. With the heightened risk of fraud caused by the current economic conditions, improving controls over journals should be an area of focus for the Board.	We would recommend that a formal document is issued with guidance to finance staff regarding the posting of journal entries. We would recommend that the Director of Finance no longer be authorised to post journals entries but solely act as an authoriser of other individuals journal entries, to reduce the fraud risk by way of management override. **Management response:** Head of Finance will in future sign off all journals. Please note that the Director of Finance does not post journals. The function which enables the Director of Finance to post journals will be disabled in Tech1.
2		**IT security** We note there is no external intrusion detection programme in place. This means there is heightened risk of fraud by external parties.	We would recommend that such software is implemented to reduce the fraud risk by external penetration of the system. **Management response:** There are only very few people in the College who have remote access to certain folders in the network. Anyone accessing remotely has to go through the College firewall and Secunia software is used to detect openings in the firewall.
3		**IT policies** We note the IT policies have not been updated since 2008. There is a risk that staff are not adopting appropriate practices which may result in issues including loss of data.	We recommend that IT policies be reviewed and communicated with all staff. **Management response:** IT policies will be reviewed as part of the IT workstream on regionalisation.

9 Financial reporting and legislative developments

UK GAAP

Improvements to FRSs

What is proposed?

As we have noted in previous years the Accounting Council is planning to replace all current UK financial reporting standards with a new framework, incorporating two new standards. The standards are "The FRS", a 300 page standard which will be applied by the majority of UK companies, and the Reduced Disclosure Framework, an option of IFRS with reduced disclosures available for subsidiaries and parent company individual accounts.

For more information on the proposals and their implications, visit our website, http://www.grant-thornton.co.uk/services/audit_and_assurance/the_future_of_uk_gaap.aspx.

What would this mean for the College?

Under the proposals, the College would be considered to be a public benefit entity, as its main purpose is not the generation of profit. The FRS includes supplementary paragraphs which address issues specific to public benefit entities, for example non-reciprocal transactions such as donations.

The College will be required to undergo transition to The FRS, as will its subsidiary companies. When undergoing transition to the new financial reporting regime, there are likely to be recognition and measurement differences on transition, for example the requirement to accrue for unused holiday balances. These differences are likely to impact on the reported profit and also on the balance sheet.

As a consequence, there may be an impact on:

- the amount payable under any employee bonus arrangements the College might put in place.

What other issues do I need to consider?

There are also operational issues which may need to be addressed in preparing for transition, such as:

- training requirements
- possible systems changes to ensure all information is captured
- education of stakeholders
- potential need for additional resources.

What about the not-for-profit SORPs?

The Accounting Council intends to retain the three not-for-profit SORPs, for Charities, Registered Social Landlords and Higher and Further Education Establishments. However as stated above these SORPs will need to be updated to reflect the requirements of The FRS.

How should I plan for the transition?

From our experience in helping other entities transition between frameworks we note that the key to managing the process successfully is thorough planning and ensuring the time and resource commitments are not underestimated.

Although the final standards will not be published until the end of 2012, and will not be effective until accounting periods beginning on or after 1 January 2015 at the earliest, it is not too soon to start considering how you will address the transition process.

For the College this will mean the first reporting period is likely to be the year ended 31 July 2016, which will mean comparative balance sheets will be required for 31 July 2015 and 31 July 2014.

Timely actions and the right support will ensure that the process goes as smoothly as possible.

We would be pleased to discuss this matter further and provide detailed guidance in regard to this transition.

Real Time Information (RTI)

The introduction of Real Time Information (RTI) will significantly change the way that employers report PAYE deductions from April 2013. Instead of notifying HM Revenue & Customs (HMRC) of pay and deductions made from employees' wages at the end of the tax year, employers will be required to do this each and every time that any payment is made to an employee, on or before the time the payment is made.

Employers with fewer than 5,000 employees must start filing RTI returns from 6 April 2013.

Non-compliance with the new rules could lead to payroll processing failures, reputational damage with HMRC and employees, and potential penalties by HMRC for late or incorrect submission of data. All employers will need to review their policies, processes and systems to make sure that they are robust enough, and contain the correct data, to enable them to file in real time.

We would be pleased to discuss this matter further and provide detailed guidance in regard to this transition.

Disguised remuneration

The new disguised remuneration legislation results in an upfront income tax charge and National Insurance contributions where a reward or sum of money is earmarked for or loaned to an employee by a third party as part of an arrangement in connection with employment.

The original draft of the legislation was very wide ranging and caught many commercial arrangements with no tax avoidance element. Although the latest changes to the legislation do address many of the anomalies, there are still key issues which need to be considered when a company is to introduce any reward, benefit or incentive arrangement which includes a party other than the employee and employer in the structure

10 Independence

Ethical standards require us to give you full and fair disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£
Total external audit	**15,570**

None of the above non-audit services were performed under a contingent fee arrangement.

11 The small print

Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton, the Board of Carnegie College.

The purpose of this memorandum is to highlight the key issues affecting the results of the Group and the preparation of the College's financial statements for the year ended 31 July 2012.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the College.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the College arising under our audit engagement letter.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

Responsibilities of the directors and auditors

The directors are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

The College's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Board.

Audit efficiency

We believe the efficiency of our audit could be improved in the 2013 audit by:

- electronic copies of debtors and creditors aged reports at year end
- reconciliation between the trial balance and financial statements at the beginning of our fieldwork
- total payroll reports for the year summarising gross pay, NI, PAYE, deductions & net pay at the beginning of fieldwork

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit