University of the Highlands and Islands
Perth College

ANNUAL REPORT TO THE BOARD OF MANAGEMENT, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH GOVERNMENT

ON THE EXTERNAL AUDIT FOR THE YEAR ENDED 31 JULY 2012

Wylie + Bisset LLP
Chartered Accountants, Business & Tax Advisers

Date of commencement of Final Visit	22nd October 2012
Date of Audit clearance meeting	21st November 2012
Date of Presentation to Audit Committee	4th December 2012
Proposed presentation to Board of Management	21st December 2012

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APPENDICES

1. EXECUTIVE SUMMARY

1.1. Financial Review

The college returned a surplus of £78,000 in the year ended 31 July 2012. The comparative result for year ended 31 July 2011 was a surplus of £198,000. This is after accounting for restructuring costs of £214,000 (2011 £229,000) and includes the result of the subsidiary company Air Service Training (Engineering) Limited.

The College maintains a strong overall balance sheet position with net assets of £20,702,000 (2011 £21,027,000).

For the year ended 31 July 2013, the College has predicted a surplus of £210,000 within its annual budget.

1.2. Financial Statements

We have issued an unqualified audit opinion on the accounts of Perth College for the year ended 31 July 2012.

There have been no significant adjustments to the draft figures arising from our audit

1.3. Corporate Governance

We have undertaken an overall review of the Corporate Governance arrangements in place at the College. Based on our findings it appears that the College has strong systems in place to comply with Corporate Governance requirements.

1.4. Regularity

We have issued an unqualified regularity opinion. There are no significant issues that we wish to draw to the Boards attention in this regard.

1.5. Recommendations to Management

We have a made a recommendations relating to:

- VAT accounting and reporting within the accounting system
- Usage and security of Electronic signatures
- Governance Manual

2. INTRODUCTION

Wylie & Bisset LLP were appointed as the External Auditors to Perth College with effect from 1 August 2011 for a period of 5 years (until 31 July 2016).

Our audit has been carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice (the 'Code') issued by Audit Scotland in March 2007. Paragraph 24 of the 'Code' states that the auditor's objectives are to:

- Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;

- Review and report on the College's corporate governance arrangements as they relate to:

    - The College's review of its systems of internal control
    - The prevention and detection of fraud and irregularity
    - Standards of conduct, and the prevention and detection of corruption
    - Its financial position, and

- Review aspects of the College's arrangements to manage its performance.

The responsibilities of the Board of Governors with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Governors" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.

The responsibilities of Wylie & Bisset LLP with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.

Our audit report on the financial statements for the year ended 31 July 2012 is unqualified.

Our audit work has been designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the College's systems and financial statements.

This Annual Report has been prepared for the purposes of the College's management and Governors and should not be issued to third parties without our prior written consent. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visit.

Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

3. FINANCIAL REVIEW

3.1. Financial Statements

The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year. The Accounts Direction requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ("the SORP").

The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

3.2. Audit Opinion

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the year ended 31 July 2012, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year ended 31 July 2012 and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006. We are satisfied that funds received have been applied for their intended purpose.

3.3. Submission of Working Papers

The financial pages of the accounts submitted for audit were substantially complete and revised soon after our audit to include the final financial information. Working papers provided have been of a good standard and queries arising from the audit have all been resolved. Key staff members were available for consultation throughout the audit process.

3.4. Income and Expenditure Account

- The retained result of the College for the year is a surplus of £78,000.
- During this financial year, the College incurred restructuring costs of £214,000 (2011 £229,000). This largely relates to staff severance payments.
- The recurring staff costs, excluding FRS 17 Pension costs have reduced by £921,000 to £11,853,000 compared to last financial year. The forecast budget for 2012/13 shows an increase in staff costs to £12,149,000. This is primarily due to this projected increase in student numbers over the next year and the additional staffing costs required to facilitate this.
- The College has currently budgeted for a surplus of £210,000 in 2012/13.

	Y/E 31/7/12	Y/E 31/7/11
	£'000	**£'000**
Income		
Scottish Funding Council Grants	10,229	11,038
Tuition fees and education contracts	3,913	3,964
Research grants and contracts	209	124
Other income	4,329	4,390
Investment income	110	66
	18,790	19,582
Expenditure		
Staff costs	11,639	12,545
Staff costs – restructuring	214	229
Other operating expenses	5,877	5,547
Depreciation	945	1,003
Interest and other finance costs	42	54
	18,717	19378
Surplus on continuing operations after depreciation of tangible assets at valuation and before tax	73	204
Taxation	5	(6)
Surplus on continuing operations after depreciation of tangible assets at valuation and before tax	78	198

3.5. Balance Sheet

	31/7/12	31/7/11
	£'000	**£'000**
Tangible fixed assets	21,029	21,089
Stock	15	15
Debtors	763	665
Cash in hand and at bank	5,584	5,065
Creditors : amounts falling due in less than one year	(4,869)	(4,639)
Creditors: amounts falling due after more than one year	(367)	(587)
Provision for liabilities	1,453	1,301
Net assets	**20,702**	**21,027**
Deferred capital grants	7,411	7,814
Income & Expenditure reserve	4,886	4,480
Designated Reserve	500	500
Revaluation reserve	7,905	8,233
Total Funds	**20,702**	**21,027**

- The College continues to maintain a healthy balance sheet with net assets of £20,702,000 including cash of £5,584,000
- The balance brought forward on the income and expenditure reserve (including pension reserve) as at 1 August 2011 was £4,480,000: the balance on the income and expenditure reserve at 31 July 2012 is £4,886,000.
- The College has accounted for their pension schemes as defined contribution schemes (see section XXX). Accordingly, no pension deficit is included within the net asset figure.

4. AUDIT APPROACH AND KEY FINDINGS

4.1. Our Approach

Our audit approach recognises the requirements of the Code and is designed to adhere to the general principles outlined therein. Our approach is also designed to address the requirements of the Financial Memorandum between the Scottish Funding Council (SFC) and the Boards of Management of the Colleges of Further Education.

Our audit approach is risk based and focused on the key risks facing the College.

During our initial planning procedures, we identified a number of areas where we considered the risk of misstatement in the accounts to be greater than normal. Our audit procedures were designed and undertaken to ensure greater focus on these risk areas in order that specific conclusions could be made with regard to the identified risks. Details of the risks identified, our audit response and our conclusions are included within Appendix D.

As part of our interim procedures, we documented the systems and controls in place at the College and obtained an understanding of their operation. In accordance with auditing standards, we confirmed our documented understanding of the main operating cycles and associated accounting systems via interviews of staff and the performance of walk through tests. This process has allowed us to review, in the course of our audit, the key elements of the College's systems of internal financial controls in the main operating cycles.

Based on both our interim review and our main audit procedures, we have identified certain areas where the operation of internal financial controls could be improved. These areas are highlighted within subsequent sections of this report.

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

4.2. Audit Issues Arising

During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance. This practice is an established part of the audit process. This report draws to the attention of the Board of Governors and the Auditor General any matters of particular significance or interest, which arose from the audit, noted as follows:

Accounting Policies: In accordance with FRS18, the Audit Committee has formally reviewed the accounting policies included in the Annual Accounts. There have been no changes to the accounting policies in this year. We have not identified any instances where we consider the accounting policies to be inappropriate.

Pensions disclosure: In preparing the Annual Report for the year ended 31 July 2009, the Board of Management took advice in relation to the applicability of the accounting provisions of FRS 17 to the College's participation in the Tayside Superannuation Fund. FRS 17 provides that where an entity participates in a multi employer retirement benefit scheme, that entity should apply the accounting provision therein and recognise its share of the actuarial surplus or deficit on its balance sheet where the entity's share of the scheme assets and liabilities has been tracked on a consistent and reasonable basis.

Having made enquiries of the scheme actuary, the Board of Management reached the conclusion that the scheme assets had not been tracked on a consistent and reasonable basis and that there was scope within the way in which the scheme was administered for a significant level of cross-subsidisation between participating employers. Accordingly, the Board assessed that the provisions of FRS 17 should not be applied in respect of the College's participation in the Tayside Superannuation Fund and that this should be accounted for as a defined contribution fund with the charge to the income and expenditure account for the year representing only the value of the contributions made. This treatment has been adopted in the Annual Report annually thereafter.

During our audit procedures, the College revisited this situation with the Scheme actuary. Following a report from the actuary to the Board including an analysis of membership profile of the College members relative to the overall membership of the scheme, the Board has again considered the accounting treatment and has determined that the scheme assets and liabilities have not been tracked on a consistent and reasonable basis and hence that the current accounting treatment be continued. We have reviewed the various correspondence and assessments of the scheme and consider that the reasoning related to the disclosure of the scheme as a defined contribution scheme remains valid at 31 July 2012.

4.3. Other matters

Board Attendance: Our review of Governance procedures highlighted that two board members had attended less than 50% of Board Meetings held during the year. This situation had been identified by the Board Secretary and action taken in accordance with the College procedures. We are satisfied that the College operates adequate controls and procedures in this area and hence have made no recommendations in regard to this situation

4.4. Unadjusted errors

Appendix C includes a copy of the letter of representation which we have sought from the Governors in support of the matters reported to us during our audit procedures. This also includes reference to the summary of unadjusted errors and deviations. There were no errors or deviations other than clearly trifling that were identified during our procedures which have not been amended within the accounts.

4.5. Independence

International Standard on Auditing (UK and Ireland) 260: Communication with those charged with governance, requires that we communicate at least annually with you regarding all relationships between our firm and Perth College which, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff and to detail the related safeguards in place.

We are not aware of any such relationships between our firm and Perth College that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the audit engagement partner and the audit staff.

In our professional judgement, as of the date of this report, Wylie & Bisset LLP is independent of Perth College within the meaning of United Kingdom regulatory and professional requirements and the objectivity of Ross McLauchlan and the audit staff is not impaired.

5. CORPORATE GOVERNANCE

Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. The respective responsibilities of the College and Wylie & Bisset are summarised in appendix A.

Although we are not required to form an opinion on the adequacy and effectiveness of the individual components of the college's code of corporate governance, we are required *under the Code* to consider the corporate governance arrangements in place at the college.

5.1. 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 system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

The College's internal auditors during the year ended 31 July 2012 were Henderson Loggie

In the course of the year ended 31 July 2012 the following areas were scheduled to be reviewed by the Internal Auditor:

- International Activity – Products and Student Recruitment
- Estates Strategy, Capital Projects and Building maintenance
- Risk Management and Business Continuity Planning
- Organisational Change Management
- SUMS audit

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the reports issued by the Internal Auditor. At the time of our audit, reporting was complete in relation to Risk Management and Business Continuity Planning, Estates Projects and Building Maintenance however reporting in other areas was still to be completed

Minutes of the audit committee were also reviewed.

Our findings in this area proved satisfactory, allowing us to conclude that the internal audit function is operating effectively. Note however that no formal reliance has been placed on internal audit during the current year. This has been attributed mainly to the timing of reporting relative to our audit planning procedures.

5.2. Statement of Corporate Governance

We have reviewed the Colleges Statement of Corporate Governance included within the financial statements. Whilst we do not express an opinion on this statement, we are required to report where a statement does not comply with the requirements of SORP or other guidance, or if it is misleading or inconsistent with other information of which we are aware. The content of this statement is consistent with our understanding of Perth College.

As part of our audit we have performed a review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity. In addition, we reviewed the College's Risk Register and risk management arrangements along with the minutes of meetings of key College committees issued during the year.

The College is committed to exhibiting best practice in all aspects of Corporate Governance and, in the opinion of the Board of Management the College complies with all the provision of the UK Corporate Governance Code in so far as they apply to the further education sector.

The College's full Board of Management meets at least four times a year and has several committees through which it conducts its business. Each committee has formally constituted terms of reference and standing orders. These committees include: an Academic Affairs Committee, an Audit Committee, a Chairs Committee, an Engagement Committee, a Finance and General Purposes Committee, a Futures and Strategy Committee, a Remuneration Committee and a Search and Nomination Committee. They all comprise mainly lay members of the Board, one of whom is the Chair.

Board members also include members from College staff and students.

The Board completes an exercise on self-evaluation at the end of each meeting which is based on the responsibilities of the Board and on the 'Good Governance Standard for Public Services'. Each committee of the Board completes an annual self-evaluation exercise based on the remit of the committee. Both exercises include an evaluation of the performance of the Chair(s).

We have also considered the arrangements made by the college in order to address the requirements of the Bribery Act 2010 that came into force on 1 July 2011 in order to assess their appropriateness and adequacy.

Based on our review, we are satisfied that the College operates appropriate Corporate Governance procedures and that management has adequate arrangements in place covering standards of conduct.

We found no matters therein to impact upon our audit opinion, however two low recommendations have been made in this area to further enhance the effective Corporate Governance arrangements currently in place.

6. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Best practice requires that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Governance procedures.

An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities during our audit planning procedures.

In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:

- The monitoring and compliance with financial procedures;
- The College's strategy to prevent and detect fraud and other irregularities;
- The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.

No areas of significant concern were found during normal audit procedures.

We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Overall we concluded that management has an adequate approach to fraud prevention and detection and has reasonable controls in place to ensure that potential areas for fraud are detected and dealt with in an appropriate manner.

We have made one specific recommendation in this area in relation to security over electronic signatures however, it is highlighted that all the recommendations made have an implicit impact on the prevention and detection of fraud and other irregularities within the College.

7. AUDIT RECOMMENDATIONS – 31 July 2011

RSM Tenon were the external auditor to the College during the year ended 31 July 2011.

At the conclusion of their audit procedures they prepared an Annual Report to management in relation to the accounts of the College for the year ended 31 July 2011.

This included two recommendations to management in relation to:

Treatment of Loss on Disposal of Fixed Assets – The college had acknowledged the previous auditors point in relation to the correct accounting treatment for any profit/loss recognised on the disposal of fixed assets. During the current year there were no fixed asset disposals, therefore no profit/loss calculation was made. No further recommendation will be made in relation to this point in the current year.

Fixed Asset Register – Assets had been included on the clients fixed asset register with zero net book value which the client no longer owned. The college's response stated that the assets had now been removed from the register and that an annual review would take place to ensure only assets in existence would be on the register. From our physical verification of assets on the register, we did not note any assets which we were unable to verify their existence. Therefore we are satisfied that the previous recommendation has been followed and that no further action is required.

8. AUDIT RECOMMENDATIONS – 31 July 2012

During our audit procedures a number of observations were made where we have identified opportunities for improvement in the systems and controls in place at the College.

These points are noted below, detailing the observations and implications therefore along with our recommendation for improvement.

8.1. Prioritisation

The points within the report have been assigned a priority level based on the urgency required in addressing the matters highlighted. An explanation of the priority is as follows:

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

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

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

8.2. VAT Accounting reference date

Observation:	During our audit procedures we noted that purchase invoices are entered onto the accounting system with invoice date and a recorded service date. For the purposes of VAT returns, reports are produced at each period ends noting the purchase invoices and input VAT claimable on those transactions. However, these reports, and hence the VAT reference date is based on recorded service date rather than the invoice date.
Implication:	The period end input VAT noted per the VAT returns is incorrect, as it includes invoices from periods prior to and after the period in which the return relates. HMRC expect VAT to be accounted for on an invoice basis and not on a service date basis. Whilst the timing differences are no likely to be material on an ongoing basis, any period of large purchases may give rise to a more significant error which has the potential to result in a fine or interest charge.
Recommendation:	We would recommend that going forward the reports used in the preparation of the VAT returns were run on invoice date rather than service date.
Priority:	**Medium**
Management Response:	Our practice has been to leave our purchase ledger open for as long as possible to capture invoices for the relevant period. We accept that this has led to some invoices being processed which whilst referring to the period in question carry an invoice date after the period and consequently should be returned for a later VAT period than currently returned. This recommendation has been implemented with immediate effect to comply with VAT legislation.

8.3. Electronic Signature Security	
Observation:	Within the working papers provided to us in relation to the year end statutory accounts, that they contained electronic signatures of the Board members in an unprotected format. These could easily be manipulated and copied.
Implication:	Whilst as auditors we would maintain the security of these "signatures" the lack of documented formal procedures in relation to the use and issue of such could result in the signatures being used inappropriately, potentially to the detriment of the College and / or individual concerned.
Recommendation:	We recommend that all electronic signatures be kept securely and only accessed by authorised individuals. We would recommend that a policy is produced in relation to the use of electronic signatures and that staff are made aware of this. We would also recommend the college re-iterate to staff that documents such as the annual accounts should only be signed in person, by the college board and not include electronic pre-signed signatures.
Priority:	**Medium**
Management Response:	The use of electronic signatures has increased over recent years and it is accepted that a policy and procedure re use should be put in place to tighten security.

8.4. Governance Manual	
Observation:	The college maintains a comprehensive and accessible governance manual which was reviewed as part of our audit procedures. Within this it was noted that the manual states that it is the responsibility of the Audit Committee to advise the board on selection, appointment and removal of external auditors. This is not fully correct as the external auditor appointment is directed by Audit Scotland. The College can veto the appointment prior to the start of each 5 year audit cycle can apply to Audit Scotland to have the auditors removed during their assessment of each annual audit
Implication:	The college governance manual does not accurately reflect the procedure in place regarding the selection appointment and removal of external auditors.
Recommendation:	We recommend the college revise the Governance manual to include the correct procedure in relation to external auditors.
Priority:	**Low**
Management Response:	Governance Manual will be amended to reflect the correct procedure.

9. CURRENT ISSUES

9.1. Accounting developments - Developments in the future of UK GAAP

The Accounting Standards Board continues to meet regularly to discuss and address the comments received on FRED 43 'Application of financial reporting standards' and FRED 44 'Financial reporting standard for medium-sized entities (FRSME)'. These two standards, together with FRED 45 ‘Financial Reporting Standard for Public Benefit Entities (FRSPBE)’, set out a proposed IFRS-based framework for UK GAAP. The comment period for FRED 45 closed on 31 July 2011. The Further and Higher Education SORP is expected to be retained and updated based on the final FRSME and the FRSPBE.

The ASB has taken tentative decisions:

- To defer the effective date to 1 January 2014. For Colleges with a year-end of 31 July, the first full year of adoption will be 2014/15 with a restated opening balance sheet required as at 1 August 2013;
- To change the principles for amending the IFRS for SMEs to permit or require accounting options that align with EU-adopted IFRS, for example revaluation of property plant and equipment;
- To specifically refer to SORPs in the FRSME (in relation to selection of an accounting policy);
- To amend the draft FRSME to meet required formats under Company law;
- To remove the requirement for publicly accountable entities to prepare accounts under EU-adopted IFRS. This means the application of EU-adopted IFRS will not be extended beyond the current requirements in law and consequently the scope of the FRSME will be expanded in certain areas; and
- To retain a reduced disclosure framework for all qualifying subsidiaries (with one exception for subsidiaries which are financial institutions) and to require these entities to follow the relevant SORP. For the College the proposals therefore are either:

Tier 1 **Full EU- adopted IFRS**	**Tier 2** **FRSME**
Applies as required in law (eg listed entities) Entities may choose to adopt full IFRS FRSPBE is guidance Follow SORP	All other entities FRSPBE is mandatory Follow SORP
Subsidiaries apply reduced disclosures	Subsidiaries apply reduced disclosures

9.2. Pension auto enrolment

From 1 October 2012 the Government introduced compulsory work place pensions via the Pension auto-enrolment scheme. The aim of this reform is to reduce the pension deficit in the private sector. For the first time, all employers with at least one worker in the UK will have to contribute to a qualifying pension for their staff who must be auto-enrolled in to the scheme.

Auto-enrolment (AE) is a fundamental change that will impact every employer. Auto-enrolment will be introduced on a gradual or 'staged' basis from October 2012 to February 2014 depending on the size of the organization, starting with the largest employers, eventually affecting all employers regardless of size.

The AE scheme imposes duties on employers to assess their entire workforce, to enroll eligible workers into a qualifying pension scheme and to make a minimum pension contribution on behalf of eligible employees.

A qualifying scheme may be an existing one, if it meets relevant criteria, or a new scheme, including possibly the new National Employment Savings Trust (NEST) pension scheme. Minimum employer contributions will start at 1% and increase to 3% by 1 October 2018.

The key features of auto-enrolment are:

- employers with UK workers must automatically enrol eligible workers aged between 22 and State Pensionable Age who have annual earnings above £8,105 into a qualifying scheme;
- enrolment must occur when the worker first meets eligibility requirements (normally day one of an employment), but there will be an optional 3-month waiting period which provides exemption from having to auto-enrol very temporary workers;
- specific notification must be provided to the worker of their opt-out right, but with no inducements to opt-out; and
- workers who do opt-out within a month of being enrolled must be paid a refund, and be automatically re-enrolled every 3 years.

The new duty will apply to all eligible employees not in a pension scheme, including those who have already opted-out of existing pension arrangements. A decision is therefore needed as to whether to use existing pension schemes to meet the duty (which may have higher contribution rates than the statutory minimum required by this new legislation) or to use a different vehicle for auto-enrolment where possible. It is important to define a strategy as early as possible, as this will dictate how much work is required to achieve compliance and what additional administrative resources will be required e.g. to support the interfaces between pensions, HR and payroll systems. In order to make accurate assessments of workers, data with regard to age, earnings and pension contributions will need to be complete and accurate. Employers must capture information in line with the record keeping and communication requirements, and the consequences of non-compliance with AE will be governed by the Pensions Regulator. There are financial penalties for non-compliance. The clear onus on the employer to get things right means processes and systems will need to be correctly mapped in order to avoid any negative ramifications. The cost of complying with the regulations could be substantial and the impact on operational administration should not be under estimated. We can assist clients in understanding the administrative impact, provide specialist pension advice, deliver effective communications and explore cost reduction strategies to help manage increased payroll costs. In our experience, planning with respect to AE compliance should begin at least a year in advance of an organisation's staging date.

9.3. Real Time Information

Real Time Information "RTI" is due to commence in April 2013 and represents the most fundamental change to the PAYE system in decades.

Every employer will be impacted and HMRC will require significantly more information about each employee than currently provided, every time employers run the payroll as opposed to at the end of the tax year. RTI is designed to integrate reporting within the payroll process such the software will collect the information and send it directly to HMRC, thereby reducing the administrative burden relating to year end reporting. It will also support the payment of universal tax credits and aid identification of fraud and error in this area.

Many employers have participated in a pilot launch of RTI from April 2012 and by October 2013 all employers who were not part of the pilot will have to implement RTI reporting procedures.

For RTI to work, all employers will have to prepare by taking certain measures. Specifically:

- ***Cleaning Data*** – for RTI to work the data held by employers on their employees must be as clean as possible. Information such as name, address and national insurance number must be correct and up to date to ensure that HMRC can match records correctly and ensure the right amount of deductions are paid.
- ***Payroll alignment*** - all employers will have to provide HMRC with an extract of all employees in their PAYE scheme that tax year, regardless of whether they have since left. HMRC will then compare this data with data they already have to ensure records are accurate and up to date.

Change internal processes - employers may have to change their internal processes to accommodate RTI, including the payroll software used as this will need to be updated for RTI

APPENDIX A

STATEMENT OF THE BOARD OF GOVERNORS' RESPONSIBILITIES

In accordance with the College's Constitution, the Board of Governors of Perth College is responsible for the administration and management of the affairs of the College, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

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

In causing the financial statements to be prepared, the Board of Governors has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the college will continue in operation.

The Board of Governors has a responsibility to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Further and Higher Education (Scotland) Act 1992, the College's Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and hence to take reasonable steps to prevent and detect fraud;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure; and
- ensure sound corporate governance and the proper conduct of the college's operations.

APPENDIX A

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

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

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

APPENDIX B

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF PERTH COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

We have audited the financial statements of Perth College for the year ended 31 July 2012 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated Income and Expenditure Account, and Statement of Total Recognised Gains and Losses, the Consolidated and College Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounted Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective Responsibilities of the Board of Management and Auditor

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

Scope of the Audit of the Financial Statements

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

APPENDIX B

Opinion on Financial Statements

In our opinion the financial statements:

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

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on Regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;

Opinion on Other Prescribed Matters

In our opinion the information given in the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or

- the financial statements are not in agreement with the accounting records; or

- we have not received all the information and explanations we require for our audit; or

- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

APPENDIX C

PERTH COLLEGE
Crieff Road
PERTH
PH1 2NX

12 December 2012

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

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the year ended 31st July 2012.

1. We acknowledge as members of the Board of Management our responsibility for ensuring:
   a) the financial statements are free of material misstatements including omissions
   b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2012.
   c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
   d) all other records and related information, including minutes of all management meetings, have been made available to you.
   e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and
   f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

APPENDIX C

2. We have appointed Hederson Loggie as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you.

3. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

4. The College has no liabilities or contingent liabilities other than those disclosed in the accounts.

5. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

6. There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

7. The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

8. We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.

9. The College has not contracted for any capital expenditure other than as disclosed in the accounts.

10. The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.

11. We are not aware of any irregularities, including fraud, involving management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.

12. We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.

13. We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

14. We confirm that we have considered the unadjusted errors on the attached schedule. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts. The combined effect of the errors is not material and we do not consider that their absence from the financial statements affects the true and fair view given.

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

Yours faithfully

………………………………………….. Chairman ………………………………………….. Principal & Chief Executive

APPENDIX C

SCHEDULE OF UNADJUSTED ERRORS AND DEVIATIONS

	Assets £'000	**Liabilities** £'000	**Funds** £'000	**Income & Expenditure** £'000
Dr Accruals		37		
Cr Trade Creditors		(31)		
Cr VAT Creditor		(6)		
Being the reallocation of accruals treated as pre-y/e trade creditors & VAT				
TOTAL IMPACT OF UNADJUSTED ERRORS	**-**	**-**	**-**	**-**

IDENTIFIED AUDIT RISK, APPROACH & CONCLUSION

Risk	Audit response	Conclusion
Audit of opening balances In the first year of an audit engagement there is a risk that the auditors are not satisfied with the correct statement of the opening balances. This could have a material impact on the results for the year under audit arising from the impact on the current periods income and expenditure account, of any required restatements.	Our audit procedures are designed to ensure we adequately address this matter. We will obtain sufficient appropriate audit evidence to satisfy ourselves that: • The opening balances do not contain misstatements that materially affect the current periods financial statements; • The prior period's closing balances have been correctly brought forward to the current period, or where appropriate have been restated, and; • Appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed. In addition to our standard audit tests in this area we will review prior year audit working papers, where considered necessary, along with the prior year audit report and accounting policies to satisfy ourselves that the opening balances are correctly stated.	No issues were noted. We are satisfied that the accounting policies are reasonable and are adequately presented and disclosed.
Sector structural changes There is a risk of increased public scrutiny following the initiation of the Scottish Government's joint consultation process, together with the Scottish Funding Council, in November 2011 which outlined a vision for regional groupings of colleges. The College has indicated that it supports regionalisation reform and is exploring the possibility of merger with Cardonald College and Anniesland College	We will review the college's planned approach to merger and consider any impact this may have on the College's governance arrangements, internal controls and financial statements in the year under audit. We will consider the recommendations made in the Griggs Report and will ensure governance arrangements adhere to best practice.	Based on our review, we are satisfied that the College operates appropriate Corporate Governance procedures and that management has adequate arrangements in place covering standards of conduct.

Risk	Audit response	Conclusion
Financial performance		
Following the recently approved 2012/13 budget, funding resources for Scotland's Colleges remain tight and are reduced from previous levels. SFC grant in aid remains the main source of income however the levels received from SFC are reduced in comparison to previous years. There is therefore increased risk associated with the demand this places on current resources due to the occurrence of non standard transactions such as voluntary severance.	We will review budgets and budget setting and monitoring arrangements to ensure these adequately meet the needs of the college in a time of tight resources. As part of our audit process we will review the College's final outturn and ensure we can adequately explain any deviations from budget. Any non standard transactions will be specifically reviewed as part of our audit testing and ensuring adherence with the requirements of *FRS12 Provisions, Contingent Liabilities and Contingent Assets.* In particular, any severance provision will be assessed.	We are satisfied that the procedures and processes operated by the College in this area are adequate to meet the needs of the College in a time of tight resources. All significant deviations from budget have been adequately explained and supported. Subject to a small adjustment as noted within the schedule of unadjusted errors, we are satisfied that non standard transactions have been processed correctly.
FRS 17		
We understand that historically it was decided that the Tayside Superannuation Fund be accounted for as a defined contribution scheme in accordance with the information available at that time. This gives rise to the risk that accounting for pension costs and liabilities may not be complaint with FRS 17 and the SORP.	As part of our audit procedures we will review correspondence with the actuaries along with the report of the actuaries in relation to the scheme. We will consider current technical assessments regarding accounting for pension schemes within public body financial statements and guidance issued by Audit Scotland Technical Services Unit. We will then assess whether the basis of accounting for the pension scheme and associated disclosure as a defined contribution scheme remains valid at 31 July 2012.	We have reviewed the correspondence with the actuaries along with the report of the actuaries in relation to the scheme and the membership profile. We consider that the Boards assessment of the situation is reasonable and hence that disclosure as a defined contribution scheme remains valid at 31 July 2012

APPENDIX D

Risk	Audit response	Conclusion
Override of Internal Controls		
There is a risk of fraud or error arising due to management override of controls. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs.	Our audit procedures will include testing the appropriateness of journal entries recorded within the general ledger and other adjustments made in the preparation of the financial statements, along with a review of accounting estimates for any evidence of management bias. We will also consider specifically any significant transactions outside the normal operations of the College	Satisfactory. Our testing has highlighted no issues in this area. There are no indicators of inappropriate management override of controls.
Revenue Recognition		
There is a risk of material misstatement due to errors in revenue recognition. Note that this is considered a specific risk for all audit engagements in accordance with the requirements of ISAs unless it can be specifically rebutted.	Our standard testing procedures in this area will adequately address the associated risk such that a specific additional audit response is not required.	Satisfactory. Our testing of the income balances has highlighted no issues with regard to revenue recognition providing adequate assurance over the figures included within the financial statements.

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