

## Key Issues Memorandum

### Scottish Further and Higher Education Funding Council

### For the year ended 31 March 2012

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To the Audit and Compliance Committee of the Scottish Further and Higher Education Funding Council (SFC), and the Auditor General for Scotland.

The purpose of this memorandum is to highlight the key issues affecting the results of the SFC and the preparation of the SFC's financial statements for the year ended 31 March 2012. It is also used to summarise the outcomes from our 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'.

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.

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## Executive summary

<b>Financial Statements</b>	
Audit Opinion	We have given an unqualified opinion on both the financial statements of the SFC and on the regularity of transactions undertaken for the 2011-12 financial year.
Financial Statements	The draft financial statements and supporting working papers were of a good standard. Adjustments to the draft accounts following our audit resulted in a net reduction of £2.1 million to the deficit charged to reserves, mainly due to an adjustment to accrue for ESF Funding.
Education Maintenance Allowance	A key issue for the 2011-12 financial statements has been the change in the accounting treatment of the Education Maintenance Allowance. The policy has been changed to recognise this as an agency arrangement and the income and expenditure are no longer recognised in the financial statements.
<b>Governance</b>	
Audit Committee	The Audit and Compliance Committee operates in accordance with good practice and provides effective oversight.
Internal Audit	We have concluded that the work of Internal Audit was compliant with the government internal audit standards.
Risk Management	Risk management arrangements were found to be embedded within the SFC and generally operating well.
<b>Performance</b>	
The Corporate Plan 2009- 2012	The SFC currently monitor actions taken to achieve the outcomes in its corporate plan and report on this in the annual report. The current period covered by the corporate plan is coming to an end and a new plan is being developed but is not yet in place. The HE and FE sectors are currently facing a period of uncertainty over future funding and structures presenting new challenges for the role of the SFC going forward.
National Performance Reports	The SFC has now established procedures to obtain and review Audit Scotland National Reports in a timely manner.
The Role of Boards	The SFC has good arrangements in place to ensure the Board operates as effectively as possible in line with good practice.

## 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.

### 2.1 Status of audit

Our audit is now complete, we discussed all matters arising with the Director of Finance on 31 May 2012. The audit of the Whole of Government Accounts pack was the only planned work outstanding at the time of reporting:

### 2.2 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 in our Audit Approach Memorandum presented to the Audit and Compliance Committee on 1 December 2011.

### 2.4 Matters identified at the planning stage

Issue	Auditor commentary
<p><b>Financial Position</b></p> <p>The Scottish public sector continues to face a period of sustained financial austerity with significant cuts in public expenditure commencing from 2012-13.</p> <p>The Cabinet Secretary for Finance and Sustainable Growth announced the Scottish Government's spending plans for the 2012-13 financial year in September 2011. The Scottish funding Council's budget is effectively frozen over the next four years, although all allocations to the higher education sector are being prioritised.</p> <p>The administration budget has been cut by £500,000 from 1 April 2012. This represents a 6% budget reduction from 2011-12.</p>	<p>We completed a review of the financial management and budgetary control system as part of our interim audit. This work included a review of the financial strategy for the college and university sectors incorporating the reductions in the administration budget; the financial monitoring procedures in place for the sectors; and the processes for reporting the budget to the Board.</p> <p>Our findings from this review were that the financial management and budgetary control systems in place at the SFC were satisfactory.</p>

Our responses to the matters identified at the planning stage are detailed in the table at 2.4 below.

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

As part of our work on the financial statements we conducted a review of the transactions occurring throughout the financial year. While there were significant transactions with related parties including the sponsor department of the Scottish Government, Colleges and Universities, we found no matters in relation to the disclosure of related parties.

<p><b>Financial health of the college and university sectors</b> SFC reviews the financial health of the college and university sectors on an on-going basis. Institutions with deficits usually agree a financial recovery plan with the SFC and are subject to closer scrutiny.</p> <p>The financial health of both the college and university sectors is subject to uncertainty going forward, mainly due to reductions in government spending in the college sector, potential reductions in student numbers and increasing costs (particularly employee costs and energy bills).</p> <p>There is a reputational risk for SFC in the event of an institution failing. Although SFC does not directly guarantee individual institutions, there is also a financial risk to the organisation if it had to step in to ensure key provision areas continued to be met.</p>	<p>We have reviewed the processes in place to monitor the financial health of the college and university sectors and the quality of reports to the Audit and Compliance Committee.</p> <p>The SFC receive two sets of financial information from institutions. Firstly a strategic plan forecast comprising a forecast of the current years outturn, followed by the audited financial statements. On receipt of the audited financial statements key areas are reviewed and reported to committee. The key areas from an audit perspective are: compliance with the financial memorandum consideration of those institutions recording a deficit position consideration of the accuracy of the forecasting data.</p> <p>We have concluded that the processes in place ensure that financial monitoring is accurate, timely and appropriately reported.</p>
<p><b>Loan Support Guarantee Scheme</b> In 2008, the SFC agreed in principle to a loan support guarantee scheme to supplement its capital grant allocations to institutions. The aim of the scheme is to increase the amount of capital funding available to the college and university sectors by spreading payments over a longer period of time.</p> <p>The loan agreements are between the institutions and the lenders, with SFC acting as a guarantor. SFC's role is to facilitate the lending by acting as the guarantor, and providing funds by grant to the institutions to fund principal and interest payments.</p> <p>The scheme has already been approved for use at Coatbridge College, and one other scheme is also being considered by the SFC. Going forward, the Scottish Government has determined that the Scottish Futures Trust will be involved in arranging funding for other capital projects.</p> <p>There is a risk that such schemes and guarantees are not correctly identified and accounted for in the SFC's financial statements.</p>	<p>The disclosures are recorded in the financial statements as financial instruments in line with <i>IAS 39 Financial Instruments: Recognition and Measurement</i> which recognises financial guarantees as being under the remit of financial instruments. IAS 39 requires financial guarantee contracts to be recognised in the accounts as a liability based on fair value. However, taking into consideration the variability of financial guarantees available the standard also allows the financial guarantee to be recorded under the criteria of <i>IAS 37 Provisions, Contingent Liabilities and Contingent Assets</i>. The risk to the SFC of realising payment has been regarded as low by the SFC and therefore the balance was not included in the primary financial statements but rather included as a disclosure outlining the financial instruments in the note 21 to the accounts.</p> <p>We have concluded this treatment is appropriate for the balance. However, we did note that the agreement for the guarantee was for a maximum of £8.9 million which is £1.9 million lower than the balance disclosed in the financial statements. SFC have amended the accounts to reflect the value of the guarantee as per the formal documentation.</p>

<p><b>Education Maintenance Allowance</b>                  Education Maintenance Allowance (EMA) is paid to eligible students attending further education colleges in Scotland. Funding is distributed to institutions by SFC of behalf of the Scottish Government.</p> <p>In previous years, SFC have accounted for EMA payments as funding coming in to SFC and expenditure to the institutions. A recommendation in the Annual Report on the 2010/11 Audit suggested that SFC should review this treatment in line with <i>LAS 18: Revenues</i>.</p>	<p>The EMA grant has been evaluated against the criteria of an agency agreement outlined in the appendix of <i>LAS 18: Revenues</i>. A conclusion was reached that the EMA grant should be treated as an agency arrangement and the appropriate adjustments to the financial statements have been processed. The adjustments made are to the prior year figures to remove an opening balance of £1,530k in reserves as at 31 March 2010, and to remove £9,462k from grants paid and grant-in-aid received in 2010-11.</p>
<p><b>Payment of Grants</b>                  The main financial transactions in the year at SFC are the payment of grants to individual colleges and universities. For the year ending 31 March 2012, the SFC distributed £1,031 million to the university sector and £641 million to the further education sector.</p> <p>Payment of Grants is largely driven by formulas, and there is a risk that any errors in formulas or underlying data could lead to incorrect or inappropriate payments to institutions.</p> <p>In addition, there is a risk that any grant clawbacks for institutions failing to meet requirements are not identified or processed.</p>	<p>As part of our interim work at the SFC we reviewed the controls and procedures in place over the payment of grants. We concluded that there were robust systems in place to ensure the payment of grants is appropriate.</p> <p>Our audit of the financial statements at the year-end included substantive testing of the clawbacks for institutions. The finance team are notified of clawback values by members of the policy teams who have an ongoing dialogue with institutions. The calculation of the clawback varies on the grant type. We found that clawback was correctly calculated, however, we identified two errors in the journals relating to clawback which resulted in mis-statements to the final accounts. The adjustments made resulted in a reduction in grants paid of £183k and a reduction in clawback income of £91k.</p> <p><b>Management comment:</b>                  The working papers and journals for clawback will in future be reviewed by a second member of the finance team.</p>

<p><b>Accounting Policies</b></p> <p>It is important that the SFC's accounting policies are up-to-date with regards to current accounting standards, and are appropriate for the transactions undertaken by the organisation.</p> <p>There is a risk that accounting policies are not reviewed and updated, or formally approved by those charged with governance on a regular basis.</p>	<p>As part of our work on the audit of the financial statements we have conducted a review of the accounting policies in place. As part of our review we analysed the polices against the reporting requirements of the FReM and for consistency with prior year.</p> <p>Full analysis of the accounting policies has been outlined in section 3.1. There were no areas where the accounting policies were not in line with the FReM and with the exception of the treatment of EMA grant, all accounting policies remained unchanged from prior years.</p> <p><i>IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors</i> states that an entity shall change an accounting policy only if the change results in the financial statements providing more reliable and relevant information on the entity's financial position, financial performance or cash flow. We agree that the treatment of the EMA as an agent falls within this definition. This has been detailed in note 22 in the financial statements.</p>
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# Financial reporting matters

## 3.1 Commentary on key judgements and estimates

### Going concern

The SFC has based its assessment of going concern on the following factors:

- the provision of services is anticipated to continue
- spending plans for 2012-13 have been agreed by the Scottish Government with grant-in-aid to match the SFC expenditure.

The basis of the going concern assumption was found to be reasonable.

### Revenue recognition

The predominant source of revenue for the SFC is through government grant in aid. In line with the requirements of the FReM the grant in aid is accounted for on a cash basis.

## 3.2 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
Depreciation	Depreciation is charged on a straight line basis, based on the useful economic lives of the asset. Property Plant and Equipment is reported on a depreciated historic cost basis.	The SFC has a low value asset base which does not include land and buildings. The useful economic lives are reasonable
Grants paid to colleges and universities	The SFC pays grants either on the basis of monthly instalments, which take into account the pattern of the institution's receipts and payments, or on receipt of claims from institutions, depending on the type of grant payment.	The policy disclosed reflects the practices in place at SFC and has been updated to explain that prepayments can be as a result of funds being distributed to institutions on an academic year basis.

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Accounting area	Summary of policy	Comment
Pension Costs	The SFC employees are members of the Principal Civil Service Pension Scheme (PCSPS) which is a multi-employer defined benefit scheme. This is accounted for as a defined contribution scheme as the SFC is unable to identify its share of the underlying assets.	The disclosure is in line with the requirements of IAS 19 which required disclosure explaining that although the body is part of a defined benefit scheme it has been accounted for as a defined contribution scheme due to the inability to identify its share of the defined benefit obligation.
Financial Guarantees	In accordance with IAS 39, financial guarantees are recognised as liabilities.	The guarantee provided by the SFC to Coatbridge College has not been included as liability. However, there is further explanation at Note 21, which clarifies that, as there low risk of the payment being realised, this does not have an impact on the financial statements.

### 3.3 Disclosure omissions

Our review identified the following areas where the disclosures in the financial statements did not meet the requirements of the FReM.

Issue	Commentary
<p><b>Chief Executive and Accountable Officer's Report- Sustainability Report</b></p> <p>A new requirement of the FReM is that included in the annual report there should be a section which outlines the economic, social and environmental factors impacting the organisation. This is to be presented in a Sustainability Report.</p> <p>The Scottish Government prepared guidance on this '<i>Public Sector Sustainability Reporting- Guidance on the Preparation of Annual Sustainability Reports</i>' which outlines the minimum reporting requirements covering areas such as:</p> <ul style="list-style-type: none"> <li>Greenhouse gas emissions</li> <li>Waste minimisation and management</li> <li>Finite resources</li> <li>Action on Biodiversity</li> <li>Sustainable procurement.</li> </ul>	<p>The SFC has included a Sustainability Report, however, the report does not include the minimum information required by the guidance as follows:</p> <p>Greenhouse gas emissions should be split in accordance with the guidance into: scope 1 (emissions from sources controlled by the SFC); scope 2 (energy consumed which is supplied by another party); and scope 3 (business travel). Currently the SFC only disclose the emissions from business travel.</p> <p>Waste is required to be shown as a total waste figure and then split into that which has been set to landfill and that which has been recycled. Currently the SFC disclose the recycled figures but not an overall total or that sent to landfill.</p> <p>There have been no disclosures on the consumption of water, sustainable procurement or action on biodiversity.</p> <p>We understand that as the SFC currently lease part of a larger building and are not responsible for energy and waste management as this applies to the building as a whole. However, where the data is not available and a robust estimate cannot be made this should be disclosed in the Sustainability Report and an explanation of plans in place to improve the data collection should be included.</p> <p><b>Management response:</b></p> <p>Further information has been added to the sustainability report in the accounts. We will review our reporting of sustainability for the 2012-13 audit.</p>

## Audit adjustments

### 4.1 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.

The aggregate impact of unadjusted misstatements on the profit and loss account, were they to be processed, would result in a reduction in the deficit of £342k.

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

### 4.2 Impact of adjusted misstatements

In summary, the impact of the adjustments is:

Statement of Comprehensive Net Expenditure	Increase/(Decrease) in deficit
	<b>£'000</b>
Deficit transferred to reserves	(2,280)
<b>Adjustments</b>	
Understatement of Debtors	182
Overstatement of Debtors	(91)
Understatement of Depreciation	(8)
Understatement of the Audit Fee	(2)
<b>Post Balance Sheet Event</b>	
Additional ESF funding	2,189
Final deficit transferred to reserves	(10)

#### Additional ESF funding

During the audit, SFC received confirmation from the Scottish Government that they would be entitled to additional funding from the European Structural Fund (ESF) after clarification of eligibility of expenditure. This new information, brought to light to us by SFC, fulfils the requirements of an adjusting post balance sheet event (*IAS 10 Events after the Reporting Period*).

### **Education Maintenance Allowance**

IAS 8 requires, where a change in accounting policy occurs, that prior year figures be adjusted to provide comparative information in line with the new accounting policy.

The SFC reviewed its accounting policy for Education Maintenance Allowance (EMA) expenditure during the year. This review concluded that the SFC administered EMA grants in an agency arrangement. This change in accounting policy has been agreed by the auditor and does not have an effect on the current year balances but does result in a reduction in brought forward reserves as at the 31 March 2010 of £1,530k.

## Design effectiveness of internal controls

### **5.1 Accounting system and internal control**

As part of our interim audit work we undertook reviews of the key financial systems. There were no significant issues arising from this testing. Our Interim report detailed the outputs from our interim work and was presented to the Audit and Compliance Committee on 22 March 2012.

Our audit is not designed to identify all significant weaknesses in the SFC's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of the SFC. 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.

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# Governance

## Introduction

The SFC is 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. Our work on corporate governance focused on our review of the SFC's arrangements to ensure there are effective systems in place for:

- risk management arrangements
- audit committee arrangements
- provision of internal audit services
- board and committee structures.

## Risk management

We found that the SFC has procedures in place to identify, manage and report on risk. This was evident through the risk updates which are presented to the Audit and Compliance Committee. We noted, however, that the process for risk management had not been formally documented, there is therefore a risk of an inconsistent approach to risk management across the organisation.

## Audit committee arrangements

We reviewed the Audit and Compliance Committee arrangements as part of our review of the control environment in which the SFC operates. We found the committee contributes to the effective oversight function in place at the SFC.

## Internal audit

As part of our work in the first year of our audit, we completed a detailed review of the internal audit function against the government internal audit standards. We found that KPMG, in their role as internal auditors, are compliant with all the relevant standards.

## The Bribery Act

The Bribery Act 2010 (the Act) modernises the law on bribery. The Act came into force on 1 July 2011 and introduces four new offences:

- offering, promising or giving a bribe
- requesting, agreeing to receive or accepting a bribe
- bribing a foreign public official
- a corporate offence of failing to prevent bribery.

The Act also introduces a new crime of "failure to prevent" bribery which means that organisations must be able to demonstrate that they have implemented "adequate procedures" to prevent corrupt practices within their own organisations or by third parties on their behalf.

The SFC has consulted its legal advisor on the requirements to ensure they have in place systems to prevent bribery. This resulted in a recommendation to update the staff manual to ensure sections covering the receipt of gifts and hospitality are in line with the Bribery Act and this recommendation has been implemented. The SFC is also in the process of updating its risk assessment to take account of its responsibilities under the Bribery Act.

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## Best Value and Performance

### 7.1 Introduction

All public bodies in Scotland have a duty to secure Best Value and continuous improvement. The Council's administration budget has been frozen for the three years of the Spending Review period, and therefore represents a real terms reduction in resources. The Council may face increasing pressure to prioritise resources to deliver the programme of reforms, and must therefore make efficiencies in other areas of work.

### 7.2 Review of Performance

The SFC developed a Corporate Plan which was approved by the Scottish Government in April 2009. The Corporate Plan links to the National Performance Framework and has seven priority outcomes which the SFC seeks to achieve. The actions taken in 2011-12 to achieve the outcomes have been detailed in the annual report.

The on-going progress against the outcomes is monitored by the Quality, Equalities and General Purposes Committee.

The current Corporate Plan covers the period 2009- 2012. In the coming financial year action will be required to ensure a revised corporate plan is developed in line with the government outcomes targets and incorporating the significant changes to the sector since 2009.

### 7.3 National reports

To maximise the impact of Audit Scotland's national performance audit work programme, we are required to follow up national reports affecting the Council in the year following publication.

#### Scotland's Public Finances

Audit Scotland published a national report, *Scotland's Public Finances – Addressing the Challenges* in August 2010, which considered how public bodies are responding 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.

Although the Council reviewed the report informally, no self-assessment was conducted against the recommendations and we noted that there is no protocol to ensure that national reports from Audit Scotland are considered or reported to Audit Committee.

As part of our interim report we recommended that the SFC should establish arrangements to be notified of national reports as they are published, arrangements have now been put in place. Relevant reports should be considered for any key issues which might impact on the Council and action should be taken as a result of the issues arising.



## **7.4 Role of Boards**

In 2010, Audit Scotland published a national report on the governance arrangements for the range of public sector organisations. SFC was one of the organisations sampled in the report.

The general points raised by the report include:

- Chief executives and their boards have parallel lines of accountability and this can cause confusion over who leads the organisation unless the separate roles are well defined and understood.
- There are concerns about the recruitment of board members, including the falling number of applicants, the length of the recruitment process and the diversity of applicants.
- How Boards monitor and manage risk.

Our review of the SFC's Board arrangements concluded that they are well developed and operate effectively. The Board undertakes an annual evaluation of its own performance, which includes the Chairman's evaluation of individual board members. In addition, the Board engaged the Scottish Director Development Centre to undertake an independent board evaluation exercise in April 2011. The SFC has developed a Board Effectiveness Plan to respond to the findings, and ensure that further improvements are made.

## Looking forward

### 8.1 Developments in the sector

During 2011-12, the SFC and Scottish Government have implemented a number of step changes in the way further and higher education is funded and delivered. The publication and response to two significant reports on the governance of the sectors, and the results of the *Putting Learning at the Centre* consultation mean that the education sector is entering a period of change to deliver the Government's ambitious programme.

#### Outcome Reporting

One of the most significant proposed changes is the use of outcome agreements to deliver the government's priorities and differentiate funding across each sector.

This will change the nature of accountability arrangements as the SFC begins to hold universities and colleges to account based on the outcome agreements and associated performance measures.

To date, the SFC has issued consultation document and guidance on how the outcome agreements will work. We will continue to monitor progress in this area. Our work in other sectors has underlined the challenge associated with developing meaningful outcome measures that reflect short term performance.

#### Regionalisation

The SFC has been developing its approach to regionalisation in the FE sector for some time. The Griggs report on the Review of Further

Education Governance in Scotland proposes a new governance structure for the further education sector confirming many of the SFC's own findings in relation to the potential sector benefits of a regional approach.

The implementation of a new regional structure in the FE sector represents a significant change for colleges and presents a major implementation challenge for the SFC and the sector. The change in funding approach, for example, will move to a regional basis for allocations from 2012-13.

The SFC will have a major role in supporting colleges through the transition to regional structures, and in ensuring principles of effective governance and financial stewardship remain in place throughout any merger programme in the sector.

### 8.2 Developments within the SFC

As a result of the change to an outcome based approach, SFC is undertaking an internal restructuring exercise. One of the key elements of this is a voluntary redundancy scheme. It is hoped this move will increase efficiency by aligning staff to better fit the needs of the institutions. While this move may bring benefits to the SFC it is crucial that the change is managed well in order to avoid the demotivation of staff and to ensure planned increases in efficiencies and effectiveness are realised.

# The small print

## Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton and the Scottish Further and Higher Education Funding Council (the Council).

The purpose of this memorandum is to highlight the key issues affecting the Council's results and the preparation of the financial statements for the **year ended 31 March 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 Council's financial statements.

## Responsibilities of the Council and auditors

The Council is 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 Commissioner confirm that our understanding of all the matters in this memorandum is appropriate, having regard to his knowledge of the particular circumstances.

## Clarification of roles and responsibilities with respect to internal controls

The Chief Executive, as Accountable Officer, 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 he has done so.

In addition, the Accountable Officer is required to review all other internal controls and approve the statements included

in the annual report in relation to internal control and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

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.

## Independence and robustness

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:

Audit Services	£
Financial Statements Audit	£72,000
Education Maintenance Allowance Return 2010-11	£2,000
<b>Total audit fees</b>	<b>£74,000</b>

### 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