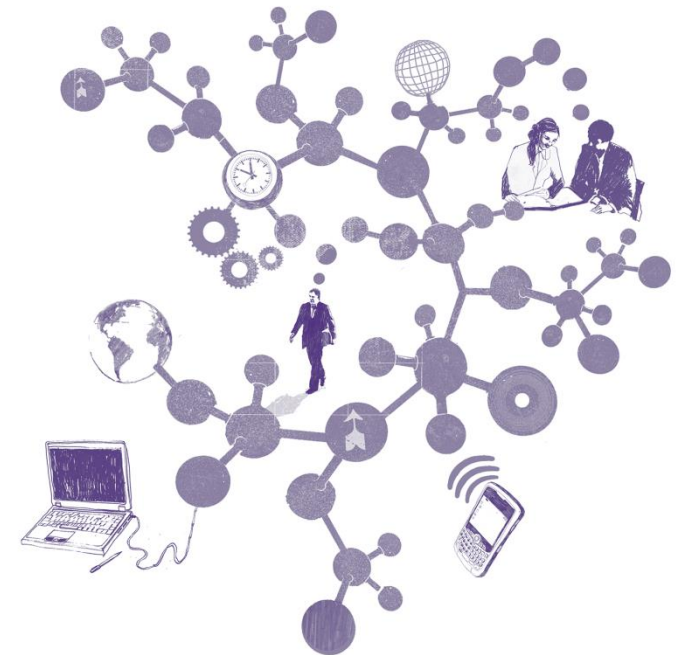


Annual Audit Report for Adam Smith College

Year ended 31 July 2013



The contents of this report relate only to those matters which 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. 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 do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
1. Executive summary	4
2. Financial Results	7
3. Audit findings	11
4. Governance	21
5. Performance	24
6. Fees, non audit services and independence	26
7. Communication of audit matters	28

Appendices

- A Draft Audit opinion
- B Draft Letter of Representation

Section 1: Executive summary

01. Executive summary

02. Financial results

03. Audit findings

04. Governance

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Executive summary

Introduction

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP, Adam Smith College ("the College") and the Auditor General for Scotland. The purpose of this report is to highlight the key issues arising from the audit of the College's financial statements for the year ended 31 July 2013.

Under the Audit Scotland Code of Audit Practice we are required to report whether, in our opinion, the College's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the Statement of Recommended Practice: accounting for further and higher education (the SORP).

This report meets the mandatory requirements of the International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee.

Scope of our work

During the course of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in June 2013.

Our audit is substantially complete, although we are finalising our work in the following areas:

- obtaining final internal audit reports for assurance over key figures in the financial statements
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and the majority of accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Financial Statements Opinion

We expect to provide an unqualified opinion on the College's 2012-13 financial statements.

We have identified a number of minor adjustments within Tables 3 and 4. The adjustments have not impacted on the College's net deficit position, but have improved the presentation and disclosures within the financial statements.

Summary of Key Findings

Reporting area	Our Summary
Financial Statements	<ul style="list-style-type: none"> ■ We intend to give an unqualified opinion on the financial statements of Adam Smith College ■ There were three minor adjustments identified as part of our work on the draft financial statements. Further detail is provided in Section 3 of this report, within Tables 3 and 4.
Financial position	<ul style="list-style-type: none"> ■ The financial statements record a net deficit of on the provision of services of £388k (2012: deficit of £767k). ■ During 2012-13, the College repaid over £5.5 million of EU grant income, following failures in governance and financial stewardship reported in 2011-12. ■ At 31 July 2013, the College had a total reserves balance of £38.8m (2012: £37.2m), of which £4.9m is available as a general reserve (2012: £4.3m).
Governance	<ul style="list-style-type: none"> ■ Audit Scotland has recently published a Section 22 report relating to the financial irregularities reported during 2011-12. The report highlights that the college had submitted claims to grant funding bodies which were inaccurate, unsupported by evidence and overstated since at least 2007. ■ We reviewed the Corporate Governance Statement and we are satisfied that disclosures are in line with our knowledge of the College and that the statement is underpinned by a robust assurance framework, developed with internal audit. ■ The College merged with Carnegie College, to become Fife College on 1 August 2013. We found that significant preparations were made for the merger, and that governance arrangements transferred to the new College smoothly.
Performance	<ul style="list-style-type: none"> ■ The Outcome Agreement for the Fife region in 2012-13 set out four high level objectives. We have confirmed with internal audit that Adam Smith have achieved their WSUMS targets within a tolerable threshold.

Looking forward

Matters arising from the financial statements audit and review of the College's internal control arrangements have been discussed with the Vice Principal.

On 1 August 2013, Adam Smith College merged with Carnegie College to become Fife College . This audit therefore relates to the final year of Adam Smith College operations. Sections 3 and 4 of this report highlight further key changes for the new college in 2013-14. The most significant change, which will have an impact on the financial statements, is a decision by the Office of National Statistics to move the colleges to within the central government boundary.

The Board will also be required to continue to develop good governance structures for the new Fife College.

Acknowledgement

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

Grant Thornton UK LLP
November 2013

Section 2: Financial Results

01. Executive summary

02. Financial results

03. Audit findings

04. Governance

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Financial Results

Introduction

In 2012-13, the College reported a deficit position on the income and expenditure account of £388k. This is an improvement on the prior year position which was a deficit of £767k. The improvement has arisen due to an increase in other income and a reduction in other operating expenses.

Key Areas of Expenditure

The College reported expenditure of £32.97 million in 2012-13. The table below highlights key areas of expenditure, with staffing accounting for 62% of college costs.

	2013	2012
	£'000	£'000
Staff Costs	20,559	20,572
Restructuring Costs	2,030	483
FRS 17 Adjustment	340	(46)
Other operating expenses	8,219	9,119
Depreciation	1,425	1,364
Interest Payable	392	320
Under funding of bursary	0	7
	32,965	31,819

Source: Adam Smith College Annual Report 2012/13

The key movements on prior year relate to restructuring costs following the merger with Carnegie College. The restructuring costs were in relation to a Voluntary Severance scheme run in year and covered redundancy payments and

the pension strain associated with early retirement. The costs associated with the scheme were met by a grant provided by the Scottish Funding Council.

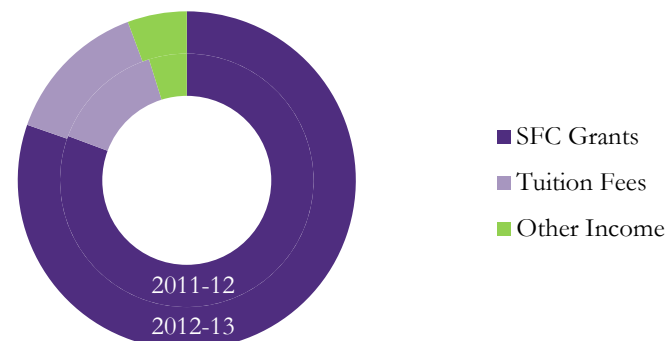
There was also a significant reduction in other operating expenses, which primarily related to actuarial valuation adjustments for unfunded pension schemes.

There was also an increase in costs associated with the Local Government Pension Scheme. In year pension charges to the Income and Expenditure Accounts were £473k (2011/12: income of £57k).

Income for the year

The principal source of funding for the College is grants from the SFC. In 2012-13, the College received £26,176k in grants from the SFC, compared to £24,748k in 2011-12.

Figure 1



Source: Adam Smith College Annual Report 2012/13

The increased funding related to merger costs. It is expected that there will be a reduction in the grants awarded by the SFC in future years.

Financial Results

A further area of significant movement was other income, which increased by £521k. In 2011-12, we reported that the College had submitted claims to European Structural Funds (ESF) grant funding bodies which were inaccurate and overstated since at least 2007. This resulted in negative income from ESF of £1,087k reported in the prior year. There was a further repayment identified of £293k during 2012-13 which was charged as Other Income.

Financial Position

The College's balance sheet reflects a positive financial position with general reserves of £38.8 million.

	2013	2012
	£'000	£'000
Non- Current Assets	55,669	58,693
Current Assets	4,550	10,386
Current Liabilities	(6,735)	(13,174)
Non current liabilities	(14,672)	(18,735)
Total net assets	38,812	37,170

Source: Adam Smith College Annual Report 2012/13

There has been a large movement in non-current assets due to revaluation in year, which resulted in a decrease in the value of land and buildings of £1,980k.

During 2011-12, the College identified significant irregularities associated with the claiming of ESF grants. As a result of subsequent investigative work, the College was required to repay the full value of the EU grants received since 2007, totalling £5.5 million.

At 31 July 2012 the College held £5,000k in an investment account. This funding was used during 2012-13 to repay the amounts associated with the repayment of ESF grant funding.

Further reductions relate to debtors associated with ESF projects which have reached completion in year. There have been no new applications for ESF funding in year.

Similarly, at the 2011-12 year end there was an accrual a provision of £1,168k included within non-current liabilities. This provision was created for projects where the College were unable to provide assurances over the eligibility of funding.

Also contributing to the fall in non-current liabilities is a reduction in the pensions liability of £2,375k informed by the scheme actuaries.

Section 3: *Audit findings*

01. Executive summary

02. Financial results

03. Audit findings

04. Governance

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Audit Findings

Introduction

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, which was issued to the College in June 2013.

We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the College with an unmodified opinion conclude that the financial statements are prepared in accordance with the Financial Memorandum and Accounts Direction issued by the Scottish Funding Council. Our audit opinion is set out in **Appendix A**.

Changes to the audit plan

During the conduct of our audit, we have not had to alter or change our audit plan issued in June 2013.

Outstanding matters

Our audit is substantially complete. We continue to finalise our audit procedures in the following areas:

- review of the final version of the financial statements
- obtaining final internal audit reports for assurance over key figures in the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

The draft management letter of representation is attached as **Appendix B** to this report.

Design effectiveness of internal controls

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

We identified one minor issue in the posting of journals within **Table 5**.

Table 1: Audit findings against significant risks

Under International Standard on Auditing (ISA) 315, we are required to identify and assess the risks of material misstatement within the College's financial statements. We identified those areas that we consider to risks within our Audit Plan 2012-13. We outline our response to the significant risks of material misstatement which we identified in the Audit Plan below.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Existence and occurrence of tuition fee revenues	<ul style="list-style-type: none"> Review of the controls in place over the tuition revenues system Substantive testing of a sample of 25 transactions, with no issues arising. Predictive analytical review over tuition fees 	Our audit work on controls and substantive testing on income has not identified any issues in respect of tuition fee revenues.
2.	Completeness of employee remuneration accruals	<ul style="list-style-type: none"> We completed detailed substantive testing of the payroll processes on a sample basis at the year end. This testing provided assurance that payroll processes were operating in line with requirements. Additional testing was conducted at the year end to provide assurance over the figures in the accounts. This testing included analytical analysis of the detailed payroll data and of the reported balances. 	We gained sufficient assurance over payroll processes to conclude that there are no material misstatements.
3.	Valuation of Property, Plant and Equipment The College has approved a merger with Carnegie College. In advance of the merger the College reviewed it's estate including identifying any assets which would become obsolete.	<ul style="list-style-type: none"> Substantive testing was used to gain assurance on the value of property, plant and equipment. We used the final audit visit to review the controls in place over the fixed asset register, including valuation arrangements. Revaluation of Fixed Assets was conducted at the year end in preparation for the merger with Carnegie College. We have reviewed the accounting entries arising from this exercise. 	Our audit testing provided sufficient assurance on the property, plant and equipment to conclude that there are no material misstatements.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p>Disclosure of exit packages</p> <p>As part of the merger process the College aims to create efficiencies and savings, via a staffing restructure programme. As part of this staff were invited to apply for a voluntary severance scheme.</p>	<ul style="list-style-type: none"> • We conducted detailed testing of redundancy packages on a sample basis. • We reviewed disclosures in the financial statements surrounding the exit packages. 	<p>Our audit testing provided adequate assurance over the disclosures in the financial statements.</p>
5.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition.</p>	<ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams • A review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
6.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls.</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of accounting estimates, judgements and decisions made by management • A review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular our review of journal controls has not identified any significant issues.</p> <p>We set out our work and findings on key accounting estimates and judgements within Table 2, on the following page.</p>

Table 2: Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the College's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>"Recurrent grants from the SFC are recognised in the period in which they are receivable.</p> <p>Non-current grants from SFC or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets. Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it was earned."</p>	<ul style="list-style-type: none"> • The policy appears reasonable, and is consistent with prior year. • The revenue recognition policies are appropriate under the SORP • In a small number of cases, judgements are made regarding levels of accrued income, and no issues have been found with this from the audit. • The draft accounts outlined an appropriate revenue recognition policy as part of Note 1 	●
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of assets and capital equipment – pension fund valuations and settlements – revaluations – impairments – provisions 	<p>For all material items, we have reviewed:</p> <ul style="list-style-type: none"> • the appropriateness of your policies under the SORP • the extent of judgement involved • the potential financial statement impact of different assumptions • the adequacy of disclosure of the accounting policy. <p>We have no concerns to highlight to the Audit Committee.</p>	●
Other accounting policies	<ul style="list-style-type: none"> • We have reviewed the College's policies against the requirements of the SORP 	<ul style="list-style-type: none"> • Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	●

Our Assessment: ● Marginal accounting policy which could potentially attract attention from regulators
 ● Accounting policy appropriate but scope for improved disclosure
 ● Accounting policy appropriate and disclosures sufficient

Table 4: Misclassifications & disclosure changes

Table 4 below provides details of significant misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. We made a number of other, minor, suggestions to management about improvements to disclosures.

Adjustment type	Impact on the financial statements
1 Disclosure	<p>It was noted in year that there were disposals totalling £296k which had a net book value of 0. The disposals have been stated net in the fixed assets note to the accounts and therefore do not appear on the face of the Balance Sheet. We recommend that, for clarity, the gross cost and full accumulated depreciation should be written out as disposals in year.</p> <p>The disclosures in the accounts have been updated to reflect the substance of the disposals in year.</p>
2 Disclosure	<p>There was a transfer of assets from Assets Under Construction totalling (£756k), however, from the disclosures it is not clear where this has been transferred to. We recommend for clarity that additional disclosures in the note show the corresponding transfer of assets into equipment.</p> <p>The accounts have been updated to show that there was a disposal of Assets Under Construction of £393k and a reclassification of the remaining balance of £363k to equipment. The revised disclosures are deemed to be appropriate.</p>

Table 5: Our findings on internal controls

Our audit of the financial statements included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported within Table 5 are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1.	●	As part of our testing on journals we found a number of journals with transaction dates relating to other financial years. Our testing found that the transactions did relate to 2012-13 but that the date had been input incorrectly. There is therefore a risk that journals are being prepared correctly on the hard copy supporting schedules but that there are errors in inputting this data into the system.	<p>We are aware from our testing that there are manual checks on the journal supporting documentation and the proposed journal prior to entry. It is recommended these checks are extended to include the posted journal to ensure the data has been input correctly on the system.</p> <p>Management Response</p> <p>The system will be amended to ensure appropriate date is entered.</p>

Assessment

- Material weakness- risk of material misstatement
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Table 6: Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the College.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. Improvements made to the financial statements are highlighted within Table 3.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any material related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the College's decision to prepare the financial statements on a going concern basis.

Looking forward

Key changes for 2013-14

In this section we highlight the key changes affecting the financial statements in 2013-14.

Reclassification of Colleges

The Further and Higher Education (Scotland) Act 1992 resulted in a total of 43 institutions being classified as Colleges of Further Education from 1 April 1993. These institutions have operated within the Non-Profit Institutions Serving Households section since this date. In October 2010 the UK Office of National Statistics made a decision to reclassify further education colleges to central government bodies, backdated from 1 April 1993.

This decision will have a significant impact on the College financial reporting arrangements. The key changes will be as follows:

- the year end will move from 31 July to become in line with central government year end of 31 March;
- the college will move under central government budgeting regime which will restrict the use of reserves and the ability to carry forward surpluses;
- the accounting framework will change in line with new SORP requirements from 2015-16 to an International Financial Reporting Standards basis. In advance of this there may be some increased disclosures required in line with the Government Financial Reporting Manual; and
- the governance framework will be required to be compliant with the Scottish Public Finance Manual.

The College will have to consider the implications of this decision and how the changes can be managed to deliver the reporting requirements.

Section 4: Governance

01. Executive summary

02. Financial results

03. Audit findings

04. Governance

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Governance

Introduction

The College's governance and risk management arrangements continue to operate effectively.

Organisational Change

Our 2011-12 Annual Report to the Board of Governors and the Auditor General for Scotland, issued in May 2013, highlighted the outcomes of a series of reviews relating to governance and financial management at the College. The Auditor General for Scotland subsequently issued a Section 22 report to the Public Audit Committee of the Scottish Parliament in September 2013, relating to issues raised during the audit of the 2011-12 financial statements.

The reports relating to 2011-12 outlined the steps taken by the College Board in response to a number of Public Interest Disclosures made under whistleblowing procedures, which alleged matters including bullying and mismanagement at the College. The College requested a series of separate investigations by the Scottish Funding Council, the Scottish Government and by independent auditors. These investigations highlighted a number of concerns, including irregularities relating to claims for EU grants. As a result, the Scottish Government subsequently required the College to repay the full value of EU grants received, and the College de-committed the balance of grants not yet paid.

During our programme of governance work in 2012-13, we found that the College Board had taken significant steps to address the issues arising from the investigations. An action plan agreed with the Scottish Funding Council had been completed, and the College had established an Organisational Change Committee to ensure that other areas for improvement were addressed.

In June 2013, the College repaid the full balance of EU grants, totalling £5.5 million, provided for in the 2011-12 financial statements to the European Structural Division.

Financial Monitoring

The College has a responsibility to monitor and control the financial position. In order to gain assurance over the adequacy of the processes we reviewed the budgeting and treasury management that in the past the College utilised a Finance Committee to monitor and approve arrangements for financial controls.

Going forward this role will be undertaken by the Finance, Commercial, Planning and Estates Committee. The membership of this committee has not been formally agreed to date. It will be key that when selecting committee members there is sufficient expertise within finance and management.

Regionalisation

As a result of the Griggs report on the Review of Further Education Governance in Scotland a number of institutions have merged on a regional basis.

The College has merged with Carnegie College with an effective date of 1 August 2013. We identified a number of governance risks in our audit plan relating to this merger. The specific risks were as follows:

- arrangements need to be in place to allow the new board to approve the 2012-13 financial statements and receive the Annual Report
- there may have been an impact on capacity of senior staff as time is required on the merger
- key staff may leave the organisation during the transition
- governance arrangements for 2012-13 may not be fully effective as a result.

We have undertaken a review of governance arrangements in place at the College as part of our audit work. We did not identify any weaknesses in the entity level controls over Adam Smith College.

From our review of committee minutes it was evident that significant consideration had been given to the merger and the governance structures which would be in place following the merger.

Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the College and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. Our enquiries of management and the College's internal auditors found that there were no internal frauds during 2012-13.

We conducted testing on journal entries and related party transactions to highlight any unusual transactions. From this testing we found a control weakness over the posting of journals, however, there was no indication of fraud or irregularity.

Section 5: Performance

01. Executive summary

02. Financial results

03. Audit findings

04. Governance

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Performance

Introduction

Outcome agreements were introduced by the Scottish Funding Council (SFC) in Academic Year 2012/13, and set out what colleges and universities plan to deliver in return for their funding from SFC. Their focus is on the contribution that the colleges and universities make towards improving life chances, supporting world-class research and creating sustainable economic growth for Scotland.

The Outcome Agreement for the Fife region in 2012-13 set out four high level objectives:

- Engaged communities with access to diverse learning opportunities and routes to employment
- High quality learning for all learners
- Skilled, confident and well qualified learners
- Skilled workforce which meets the needs of the economy

The main targets in the outcome agreement which will be monitored by the Scottish Funding Council are the Weighted Student Units of Measurement (WSUMs) targets. These targets feed into the above outcomes particularly those regarding access and skills.

The WSUMs figures from 2012-13 have been subject to audit by internal audit with no issues arising.

Section 6: Fees, non audit services and independence

01. Executive summary

02. Financial results

03. Audit findings

04. Governance

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm that there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fee payable to Audit Scotland	24,700	24,700
Total audit fees	24,700	24,700

Fees for other services

Service	Fees £
No other services provided	0

Independence and ethics

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.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 7: Communication of audit matters

01. Executive summary

02. Financial results

03. Audit findings

04. Fees, non audit services and independence

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

This Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland.

We have been appointed as the College's independent external auditors by the Auditor General for Scotland, the body responsible for appointing external auditors to the Further Education sector in Scotland. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by Audit Scotland on behalf of the Auditor General and includes nationally prescribed and locally determined work. Our work considers the College's key risks when reaching our conclusions under the Code.

It is the responsibility of the College to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the College is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate we will provide the College with an unmodified audit report

Independent auditor's report to the members of the Board of Management of Adam Smith College, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Adam Smith College for the year ended 31 July 2013 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 Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the 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 Accounting 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, I 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. My 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 me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures 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. It also

involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my 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 2013 and of its deficit 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 my 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 my 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 I am required to report by exception

I am required to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

I have nothing to report in respect of these matters.

Appendix B: Draft Letter of Representation

Grant Thornton UK LLP
7 Exchange Crescent
Conference Square
Edinburgh
EH3 8AD

Dear Sirs

Adam Smith College: Financial Statements for the Year Ended 31 July 2013

This representation letter is provided in connection with the audit of the financial statements of Adam Smith College for the year ended 31 July 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education Institutions (the SORP). I confirm that to the best of my knowledge and belief having made such inquiries as I considered necessary for the purpose of appropriately informing myself:

Financial Statements

- i. I have fulfilled my responsibilities, as set out in the Statement of Responsibilities for the Statement of Accounts, for the preparation of the financial statements in accordance with the Financial Memorandum agreed between the Scottish Funding Council and the College. In particular the financial statements give a true and fair view of Adam Smith College's state of affairs as at the 31 July 2013 and of its income and expenditure for the financial period.
- ii. I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iii. Significant assumptions used by me in making accounting estimates, including those measured at fair value, are reasonable.
- iv. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the SORP.
- v. All events subsequent to the date of the financial statements and for which the SORP requires adjustment or disclosure have been adjusted or disclosed.
- vi. The financial statements are free of material misstatements, including omissions.

Information Provided

I have provided you with:

- i. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ii. additional information that you have requested from me for the purpose of your audit; and
- iii. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.

I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the entity involving:

- i. management;
- ii. employees who have significant roles in internal control; or
- iii. others where the fraud could have a material effect on the financial statements.

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which I am aware.

Yours faithfully

David Neilson
Vice Principal



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk