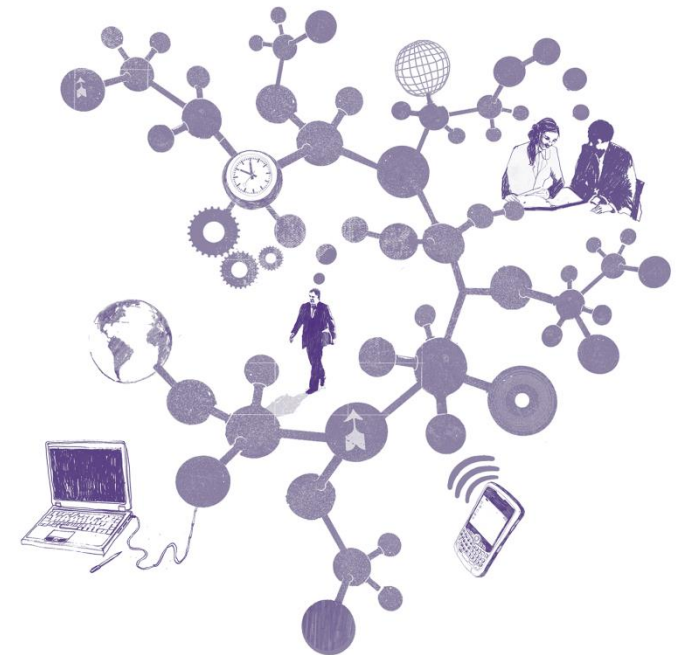


Annual Audit Report for Fife College

Year ended 31 March 2014



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.

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A Draft Audit opinion

B Draft Letter of Representation

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Executive summary

Introduction

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP, Fife 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 March 2014.

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 its expenditure and income for the year, its financial position, 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 April 2014.

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 have provided an unqualified opinion on the College's 2013-14 financial statements.

We have identified only one minor adjustment in Table 3. The adjustments have not impacted on the College's net surplus position, but have improved the presentation and disclosures within the financial statements.

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
August 2014

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 Fife College ■ There were one minor adjustment identified as part of our work on the draft financial statements. Further detail is provided in Section 3 of this report, within Table 3.
Financial position	<ul style="list-style-type: none"> ■ This is the first year accounts have been prepared for Fife College, following the merger of Adam Smith College and Carnegie College on 1 August 2013. The accounts also incorporate a change of accounting year and are therefore compiled for a period of 8 months covering August 2013 to March 2014. ■ The College reported a surplus position on the income and expenditure account of £107k, showing an improvement on prior year which had a net deficit position of £1,275k. ■ In year the College chose to establish an Arms Length Foundation Trust with a charitable purpose linked to the education of people in Fife. The College made an initial donation of £1,200k to the Trust in 2013-14. ■ The College's balance sheet reflects a positive financial position with general reserves of £51.0m.
Governance	<ul style="list-style-type: none"> ■ This has been a particularly challenging year for Fife College as it has moved from pre-merger governance arrangements from Carnegie and Adam Smith Colleges. The College has established new structures in the year following the merger ensuring that there is an appropriate framework in place. ■ We reviewed the Statement of Corporate Governance and were satisfied that disclosures are in line with our knowledge of the College and that the statement is underpinned by an assurance framework, developed with internal audit.
Performance	<ul style="list-style-type: none"> ■ The College approved a plan for the delivery of the Outcome Agreement from 2014-17. This plan focused of five key outcomes which will contribute to the overall ambition for Fife which focuses on the fulfilment of educational and employment potential for all learners in Fife. ■ The College delivered improved performance for 73% of the performance indicators including an increase in WSUMs compared to prior year. The College, however, estimate that it will miss it's WSUMs target by 1.7%

Section 2: Financial Results

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Financial Results

Introduction

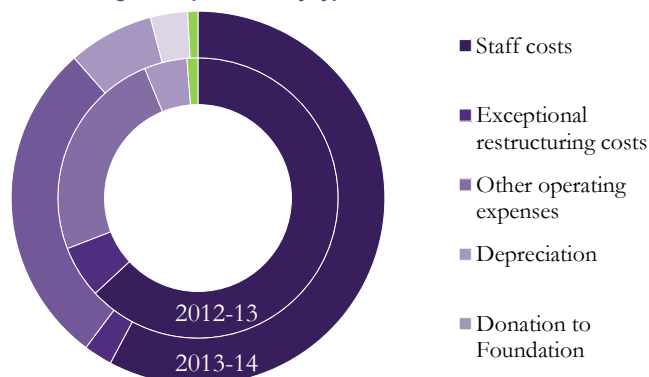
The accounts for the period ending 31 March 2014 are the first set of accounts prepared for Fife College, following the merger of Adam Smith College and Carnegie College on 1 August 2013. The accounts also incorporate a change of accounting year, and are therefore compiled on an eight month period from August 2013 to March 2014.

In 2013-14, the College reported a surplus position on the income and expenditure account of £107k. This is an improvement on the prior year position which was a deficit of £1,275k.

Key Areas of Expenditure

The College reported expenditure of £37.3 million in 2013-14. Significant movement in the balances between years was expected due to the change in year end result in a period of 8 months being reported in 2013-14 compared to 12 months in 2012-13.

Figure 1: Percentage of Expenditure by type



Source: Fife College Annual Report 2013-14

It is clear that in both years staff costs is the key area of expenditure for the College. However, it should be noted that the proportion of overall costs attributable to employee remuneration has decreased from 63% in 2012-13 to 58% in 2013-14. A key contributing factor to this reduction was a voluntary redundancy run by the College in 2012-13 and 2013-14. The majority of the costs associated with this were accounted for in 2012-13 as restructuring costs, £3,328k, compared to £923k in 2013-14.

Further significant movements relate to depreciation charges which have increased between years. This is largely due to a revaluation exercise prior to the merger of the Colleges which resulted in an upward revaluation of £7,185k. The depreciation charge has increased accordingly.

From the 1 April 2014, all colleges in Scotland will come under the accounting boundary of central government and as such will have to work within the budgeting guidelines issued by the Treasury. A key element of the guidelines is that all bodies will be required to meet the expenditure limit for the year. Any expenditure which is funded by College reserves or borrowing would still be included as part of overall government expenditure, and therefore will constitute part of the expenditure limit placed on the college. Thus reserves held at 1 April 2014 would effectively be frozen, as the use of the reserves would contribute to the budget limit and lead to a reduction in grant funding. A solution to this issue was the ability for the College to set up an arms-length foundation trust which can be used to hold reserves balances and any future surpluses.

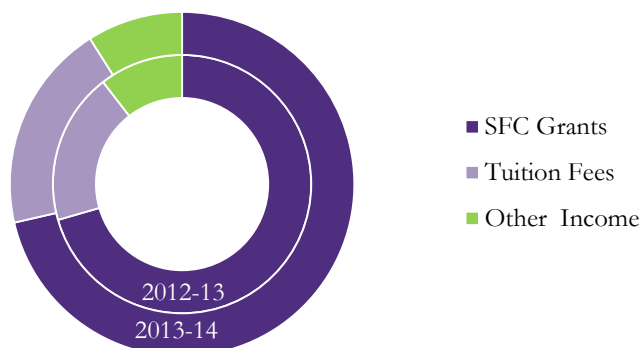
In year the College chose to set up an Arms Length Foundation Trust (ALF) which has a charitable purpose of the advancement of the charitable purposes of the College to include the advancement of education by making grants and providing financial support for projects and activities being carried out by and supported by the College. The College donated £1,200k to the ALF in 2013-14.

Financial Results

Income for the year

Fife College received income from multiple sources as shown in Figure 2.

Figure 2: Sources of Income



Source: Fife College Annual Report 2013-14

The distribution of the income has remained stable between financial years, with only a marginal decrease in other income. The principal source of funding for the College continues to be grants from the Scottish Funding Council.

In 2013-14, the College received £26,730k in grants from the SFC. This was based on estimated achievement of 98% of their WSUMS target, which was deemed to be reasonable after audit testing.

Financial Position

The College's balance sheet reflects a positive financial position with general reserves of £51.0 million. Due to changes in the actuarial assumptions used to estimate the pension liability, there was a significant increase in the net pension liability, which decreased the net asset position of the college

Figure 3: Statement of Financial Position

	2014 £'000	2013 £'000
Non- Current Assets	78,212	80,950
Current Assets	6,727	7,437
Current Liabilities	(7,899)	(10,145)
Non current liabilities	(26,056)	(21,916)
Total net assets	50,984	56,326

Source: Fife College Annual Report 2013-14

The reduction in current assets predominantly relates to the donation of £1,200k to the ALF which has reduced the cash balances held at the year end from £4,497k to £2,425k. This has been partially offset by an increase in debtors which has arisen due to the change in year end. A number of students are self funded and on a payment plan across the financial year, due to timing a proportion of the tuition fees due were unpaid at the year end and have therefore been recorded as a debtor.

The large reduction in Current Liabilities relates to amounts owed to the SFC at the year end. The amounts owed to the SFC relate to bursary and student support funds which have been drawn down but not yet claimed.

Section 3: *Audit findings*

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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 April 2014.

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

Changes to the audit plan

During the conduct of our audit, we have not had to alter or change our audit plan issued in April 2014.

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 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.

Key audit and financial reporting issues

Financial statements opinion

Matters arising from the financial statements audit and review of Fife College's arrangements for ensuring the regularity of income and expenditure have been discussed as part of our closing procedures.

Our audit identified no errors requiring adjustment and no issues with regards to the regularity of transactions.

We have also proposed one disclosure adjustment relating to the donation to the ALF. Further details are set out in [Table 3](#).

We anticipate providing a unqualified audit opinion in respect of the financial statements (see [Appendix A](#)).

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 4](#).

Table 1: Audit findings against reasonable possible and 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 2013-14. We outline our response to the significant and reasonably possible 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.	Tuition Fees are incorrectly stated	<ul style="list-style-type: none"> Review and walkthrough of the processes and controls in operation over the tuition fees systems Sample testing of tuition fees transactions to valid student applications and receipts Analytical review of expected tuition fee revenue to actual and investigate any significant variances Sample testing of debtors to ensure they are accounted for correctly. 	Our audit work on controls and substantive testing on income has not identified any issues in respect of tuition fee revenues.
2.	Employee remuneration accruals are understated	<ul style="list-style-type: none"> Review and walkthrough of the processes and controls in operation for payment of staff Sample testing of staff members to contract and recalculation of PAYE, NI and pension contributions Analytically review payroll expenses in comparison to expectations and investigate any significant variances Review the relevant disclosures relating to staff costs within the financial statements Review the treatment and associated disclosures in relation to the pension schemes 	We gained sufficient assurance over payroll processes to conclude that there are no material misstatements.
3.	The revenue cycle includes fraudulent transactions	<ul style="list-style-type: none"> Review and testing of revenue recognition policies Performance of sample testing on material revenue stream 	Our audit work has not identified any issues in respect of revenue recognition.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	Management override of controls	<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>
5.	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> • Review and walkthrough of the processes and controls in operation over the operating expenses system • Sample testing of post year end transactions for unrecorded liabilities • Sample testing of expenditure to invoice • Sample testing of creditors to ensure they are accounted for correctly 	<p>We gained sufficient assurance over operating expenses processes to conclude that there are no material misstatements</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>Income from grants, contracts and other services rendered is included in proportion to the extent of completion of the contract or service concerned.</p> <p>All income from short term deposits is credited to the income and expenditure account in the period in which it is earned.</p> <p>Recurrent grants from the Scottish Funding Council are recognised in the period they are receivable.</p> <p>Revenue grants from European funds are recognised in the period in which they are receivable.</p>	<ul style="list-style-type: none"> • The revenue recognition policies are appropriate under the SORP • The policy appears reasonable, there is minor changing in the wording to take in to account the recognition of SFC grants which have been recognised on a proportional basis in line with the service delivered. • Management judgements over the recognition of income have been reviewed and found to be reasonable. • 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 3: Misclassifications & disclosure changes

Table 3 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
<p>1 Disclosure</p>	<p>It was noted in year that there was a donation to an arms length foundation of £1,200k. This was disclosed on the face of the Income and Expenditure account but there was minimal narrative to provide background over the donation process to the reader. We therefore requested that increased narrative was inserted into the financial statements.</p> <p>The Operating and Financial Review has been updated with increased disclosure providing a background to the formation of the ALF and the process for identifying the funds to be transferred. We have deemed this increased disclosure to be adequate.</p>

Table 4: 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 4 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.	●	<p>As part of our testing on journals we found a number of journals with transaction dates relating to other financial years.</p> <p>Our testing found that the transactions did relate to 2013-14 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>	<p>The journals identified with this issue were from the SUN system used for the previous Adam Smith accounts. We understand that from 1 April 2014 the College has moved to one unified accounting system Technology 1 and therefore this should not be an issue going forward.</p> <p>Management Response</p> <p>Agreed, this will not be an issue from 1 April 2014 as the Technology 1 accounting system will be used from that date.</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.

Section 4: Governance

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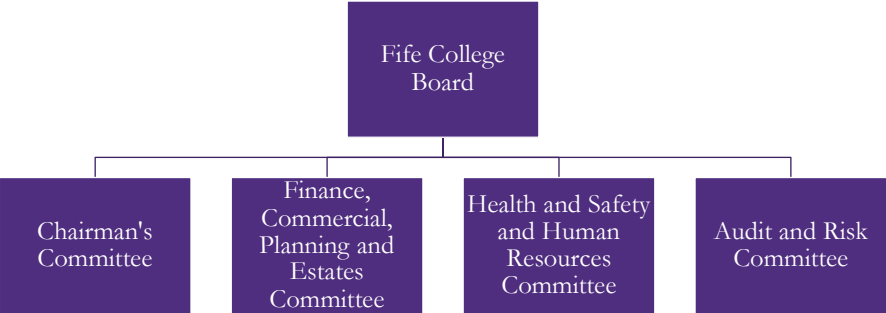
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Governance

Introduction

This is the first year of the College's existence and therefore has a new governance structure in place. The College in year has set up a new Board, which is supported by four committees

Figure 4: Governance Structure at Fife College



Governance Arrangements

This has been a particularly challenging year for Fife College as they have moved from existing governance arrangements from Carnegie and Adam Smith Colleges. The Board was formed in advance of the merger and was in place for 1 August 2013, however, the committee structure and policies have evolved over the 8 month period to 31 March 2014.

In the interim period Carnegie College policies were used to guide behaviours. We are pleased to note that the majority of the governance framework documents, tailored for Fife College, have been approved by the appropriate Committee and implemented. A key focus for our audit in 2014-15 will be the continuing implementation of the governance structures and the effectiveness in providing scrutiny and risk management.

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 which in the current year is monitored by the Finance, Commercial, Planning and Estates Committee. We are satisfied there are adequate processes in place to deliver the required financial results.

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 2013-14.

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.

Maintaining Standards of Conduct and Prevention and Detection of Corruption

The College are responsible for ensuring their affairs are managed in accordance with proper standards of conduct. We have reviewed the governance framework in place at the College and confirmed there is appropriate guidance in place including a code of conduct and financial regulations.

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Performance

Strategic Planning

During 2013-14 the College approved and submitted a plan for delivering the Outcome Agreements between 2014-17. The overall ambition for Fife outlined in this plan is that '*Learners in Fife will reach their full educational and employment potential and contribute to sustainable communities and a thriving economy*'.

The plan is underpinned by five outcomes which have been agreed with the Scottish Funding Council and therefore contribute to the Scottish Government's National Performance Framework and strategy for creating a smarter Scotland.

- To deliver an efficient regional structure to meet the needs of the Region
- To contribute to meeting the national guarantee for young people, meeting the demands of the region nation
- To ensure students are qualified to progress through the system in both an efficient and flexible manner
- To ensure students are qualified and prepared for work and to improve and adapt the skills of the region's workforce
- To secure, well managed and financially and environmentally sustainable colleges.

As part of this plan the College has identified key tasks for 2014-15 with a focus on a revised curriculum. There are clear timelines outlined in the plan with identified targets for delivery and performance indicators.

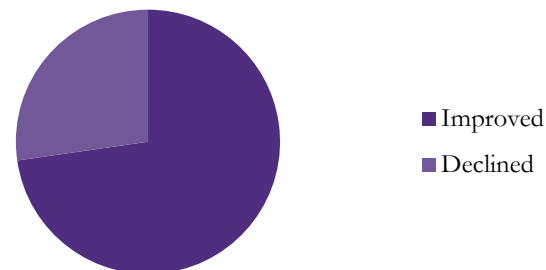
We will continue to monitor progress against the outcome agreement targets as part of our audit process.

Performance reporting

The College use a range of targets and key performance indicators (KPIs) to monitor performance. Performance is monitored by the Board and management team throughout the year.

The Annual Report summarises performance against the College's main KPIs for the year. In year the College changed their reported KPI's due to the merger. The KPI's selected were designed to be those appropriate for the new merged College. As Figure 5 highlights, the College improved or maintained performance for 73% of the indicators.

Figure 5: KPIs



Source: Fife College Annual Report 2013-14

The areas where the performance has declined is as follows:

- non SFC Income as a percentage of total income has reduced by 0.9% to 28.6%
- the gearing ratio has increased by 3.5% to 36.3%
- performance against Weighted Student Units of Measure (WSUMS) activity target has reduced to 98.3% from 100% in the previous year.

We have noted that although the College has not met the WSUMS target in year the number of WSUMS did increase by 4% in year and the ratio of WSUMS to full time equivalent staff also improved.

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Looking forward

Key changes for 2014/15 onwards

In this section we highlight the key changes affecting the College in the coming years.

Reclassification of Colleges

The Office of National Statistics (ONS) reclassification of Further Education Colleges to central government bodies came into force on 1 April 2014.

From 2014-15 there will be a requirement for the financial statements to comply with the Government Financial Reporting Manual (FReM). This has resulted in a significant number of accounting implications which have an impact on the 2014-15 financial statements.

Full International Financial Reporting Standards (IFRS) conversion is applicable from 2015-16 with the issue of the new HE/ FE Statement of Recommended Practice (SORP). This will also require comparative figures to be prepared for the opening balance at 1 April 2014 and 1 April 2014 to March 2015.

Governance Arrangements

The reclassification of the College will also impact on its governance framework. All central government bodies are required to meet the governance requirements set out in the Scottish Public Finance Manual (SPFM). The SPFM is a ministerial document which provides guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. The focus of the guidance is on achieving economy, efficiency and effectiveness throughout the central government via the application of relevant statutory, parliamentary and administrative requirements.

The SPFM is applicable to all bodies which are subject to audit by the Auditor General for Scotland as a result of any enactment or prerogative instrument.

The Scottish Public Finance Manual is part of the Scottish Government (SG) website and can be accessed via the link below.

<http://www.scotland.gov.uk/Topics/Government/Finance/spfm/Intro>

There are 48 sections to the Scottish Public Finance Manual and a number of associated annexes and handbooks. We have highlighted a number of key sections which should be reviewed when considering governance structures

- Accountability
- Annual Accounts
- Audit Committee
- Best Value
- Fraud
- Governance Statements
- Procurement

The Scottish Funding Council have issued guidance over exemptions which apply to colleges when applying the SPFM.

Estates Strategy

As a result of the merger the College has started to review its current estate to identify areas where improvements could be made to ensure efficient and effective delivery of courses. The Estates Strategy will be curriculum led and is planned to be mapped against national and regional specialisms. The College will be looking to rationalise the estate, while maintaining or improving service standards. The infrastructure in place and the geographic mix of rural and urban areas will make this process challenging.

Going forward we will review the governance arrangements around the Estates Strategy and ensure there is a robust decision making process in place.

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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	42,000	42,000
Total audit fees	42,000	42,000

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.

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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		N/A
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 Fife College, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Fife College for the period ended 31 March 2014 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 Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the College's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

Generic 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the audited financial statements and to identify

any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 March 2014 and of its surplus for the period 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 period 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

Gary Devlin, for and on behalf of Grant Thornton UK LLP
7 Exchange Crescent, Edinburgh, EH3 8AN

Date

Gary Devlin is eligible to act as an auditor in terms of the Public Finance and Accountability (Scotland) Act 2000

Appendix B: Draft Letter of Representation

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

Dear Sirs

Fife College: Financial Statements for the Year Ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of Fife College for the year ended 31 March 2014 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 Fife College's state of affairs as at the 31 March 2014 and of its income and expenditure for the financial period.
- ii. We are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions of the College conform to the authorities that govern them. In addition, we are responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions that the Scottish Funding Council may prescribe from time to time.
- iii. I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv. Significant assumptions used by me in making accounting estimates, including those measured at fair value, are reasonable.
- v. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the SORP.
- vi. All events subsequent to the date of the financial statements and for which the SORP requires adjustment or disclosure have been adjusted or disclosed

- vii. We confirm that donations made to the arm's length foundational trust were completed prior to the period end date of 31 March 2014. We further confirm the Arm's Length Foundation is independent of the College and is therefore not required to be consolidated into the College's financial statements.

- viii. 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



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