



PERTH COLLEGE

**ANNUAL REPORT TO THE BOARD OF
MANAGEMENT, THE AUDITOR GENERAL AND
THE SCOTTISH GOVERNMENT ON THE EXTERNAL
AUDIT FOR THE YEAR ENDED 31 JULY 2015**

Topic	Date
Commencement of final visit	19 October 2015
Audit clearance meeting	5 November 2015
Presentation to Audit Committee	1 December 2015
Proposed presentation to Board of Management	16 December 2015

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This report has been prepared for the purposes of the College Management, Board and the Auditor General for Scotland and should not be issued to third parties without our prior written consent. We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visit. Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

1 EXECUTIVE SUMMARY

1.1 FINANCIAL REVIEW

The college returned a deficit of £39k in the year ended 31 July 2015. The comparative result for year ended 31 July 2014 was a deficit of £6,193k after a transfer to the Arms Length Foundation of £7,916k. This includes the result of the subsidiary company Air Service Training (Engineering) Limited and is after a transfer of £1,650k from an arm's length foundation.

The College maintains a strong overall balance sheet position with consolidated net assets of £23,595k (2014: £13,885k). However no pension scheme deficit has been brought on balance sheet in relation to the Tayside LGPS.

For the year ended 31 July 2016, the College has predicted a historical cost surplus of £187k after a transfer from the revaluation reserve of £184k within its annual budget.

1.2 FINANCIAL STATEMENTS

We have issued an unqualified audit opinion on the accounts of Perth College for the year ended 31 July 2015.

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

1.3 GOVERNANCE & INTERNAL CONTROL

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

1.4 REGULARITY

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

1.5 REMUNERATION REPORT

The College is now required to include a Remuneration report within its annual report and accounts for the first time in accordance with the Government Financial Reporting Manual 2014-15 (FReM) section 5. We have undertaken appropriate audit work as part of our engagement and have issued an unqualified audit opinion in respect of the auditable areas of the Remuneration Report.

1.6 RECOMMENDATIONS TO MANAGEMENT

We have made no recommendations in relation to this years audit.

2 INTRODUCTION

2.1 APPOINTMENT

Wylie & Bisset LLP were appointed by Audit Scotland as the External Auditors of Perth College with effect from 1 August 2011 for a period of 5 years (until 31 July 2016). This Annual Report has been prepared following the conclusion of our audit of the financial statements of the College for that year ended 31 July 2015.

2.2 RESPECTIVE RESPONSIBILITIES

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

- Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
- Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
- Review aspects of the College's arrangements to manage its performance.

The responsibilities of the Board of Management with regard to the financial statements are set out in the “Statement of Responsibilities of the Board of Management” included in Appendix A and in the “Independent Auditors’ Report” in Appendix B.

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

2.3 REPORTING

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

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

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

3 FINANCIAL REVIEW

3.1 FINANCIAL STATEMENTS

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

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

3.2 AUDIT OPINION

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the year ended 31 July 2015, as, in our opinion, the financial statements give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 July 2015 and of its deficit for the year then ended; and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

We are satisfied that in all 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 and that 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.

3.3 SUBMISSION OF WORKING PAPERS

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

3.4 CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

- The retained result of the College for the year is a deficit of £39k compared with a prior year deficit of £6,193k.
- Total income for the year has decreased by £949k to £22,925k principally due to a reduction in SFC grant funding.
- Total expenditure for the year has decreased by £7,103k to £22,963k due primarily to:
 - a one off transfer, in 2014, to an Arms Length Foundation of £7,916k which was not repeated in 2015; offset by
 - an increase in recurring staff costs, excluding FRS 17 pension costs, which have increased by £716k to £14,176k (2014 : £13,460k). This is in line with expectation.

	Y/E31/7/15 £'000	Y/E31/7/14 £'000
Income		
Scottish Funding Council Grants	12,756	14,128
Tuition fees and education contracts	6,184	5,738
Research grants and contracts	78	112
Other income	3,896	3,823
Investment income	11	73
	<hr/> 22,925	<hr/> 23,874
Expenditure		
Staff costs	14,176	13,460
Other operating expenses	7,704	7,701
Transfer to Arms Length Foundation	-	7,916
Depreciation	1,008	937
Interest and other finance costs	75	52
	<hr/> 22,963	<hr/> 30,066
(Deficit) before tax	<hr/> (38)	<hr/> (6,192)
Taxation	(1)	(1)
(Deficit) after tax	<hr/> (39)	<hr/> (6,193)

3.5 BALANCE SHEET

- The College continues to maintain a healthy balance sheet with net assets of £23,595,000 including cash of £1,230,000.
- Tangible fixed assets have increased by £7,847,000 principally due to revaluation. Additions of £943,332 have been made and are offset by a depreciation charge of £974,158.
- Current assets have increased from the prior year to £2,959,000 (2014: £1,472,000), reflecting an increase in cash. This is due to a transfer of monies from the Arms length foundation of £1,650k, to be used for capital works.
- Creditors due < 1 year and > 1 year have decreased on the prior year by £371,000 to £6,218,000 (2014: £6,589,000). This is due principally to the annual £400k term loan payment. Other categories of liabilities remain broadly consistent.
- Deferred capital grant balances have increased by £1,833,000 principally reflecting receipts of £2,121,000 in year.

Consolidated Balance Sheet	31/7/15	31/7/14
	£'000	£'000
Fixed Assets		
Tangible fixed assets	28,371	20,524
Current Assets		
Stock	18	18
Debtors	1,711	1,175
Cash in hand and at bank	1,230	279
Creditors : amounts falling due in less than one year	(5,118)	(5,089)
Creditors: amounts falling due after more than one year	(1,100)	(1,500)
Provision for liabilities	(1,517)	(1,522)
Net assets	23,595	13,885
Deferred capital grants	8,628	6,775
Income & Expenditure reserve	(398)	(638)
Designated reserve	500	500
Revaluation reserve	14,865	7,248
Total Funds	23,595	13,885

4 AUDIT APPROACH & KEY FINDINGS

4.1 OUR APPROACH

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

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

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

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

Based on our procedures, we have no specific areas where we consider the operation of internal financial controls could be improved. It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the College's accounts as a whole. An audit does not examine every operating activity and accounting procedure in the college, nor does it provide a substitute for management's responsibility to maintain adequate controls over the college's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the colleges systems and working practices, or of all improvements that could be made.

4.2 AUDIT ISSUES ARISING

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

4.3 OTHER MATTERS

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

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

During 2013 the College revisited this situation with the Scheme actuary. Following a report from the actuary to the Board confirming that there have been no changes to the way in which the scheme is administered, the Board has again considered the accounting treatment and has determined that the scheme assets and liabilities have not been tracked on a consistent and reasonable basis and hence that the current accounting treatment be continued. We have reviewed the various correspondence and assessments of the scheme and consider that the reasoning related to the disclosure of the scheme as a defined contribution scheme remains valid at 31 July 2015.

4.4 UNADJUSTED ERRORS

Appendix C includes a copy of the letter of representation which we have sought from the Governors in support of the matters reported to us during our audit procedures. This also includes reference to the summary of unadjusted errors and deviations. There were no errors or deviations that were identified during our procedures other than clearly trifling which require to be brought to the Governors attention under the requirements of the auditing standards.

4.5 INDEPENDENCE

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

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

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

5 GOVERNANCE & INTERNAL CONTROLS

5.1 GOVERNANCE

Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation. The respective responsibilities of the college and Wylie & Bisset LLP are summarised in Appendix A.

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

5.2 INTERNAL AUDIT

Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

The College's internal auditors during the year ended 31 July 2015 were Henderson Loggie

In the course of the year ended 31 July 2015 the following areas were scheduled to be reviewed by the Internal Auditor:

- Corporate Governance
- Student Funding
- Budgetary Control

Our audit procedures included an assessment of the adequacy of the Internal Audit function and review of the reports issued by the Internal Auditor. At the time of our audit, reporting was complete in relation to all areas reviewed by internal audit.

Minutes of the audit committee were also reviewed.

Our findings in this area proved satisfactory, allowing us to conclude that the internal audit function is operating effectively. .

5.3 STATEMENT OF CORPORATE GOVERNANCE

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

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

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

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

Board members also include members from College staff and students.

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

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

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

We found no matters therein to impact upon our audit opinion.

6 FRAUD AND IRREGULARITIES

6.1 BEST PRACTICE

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

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

6.2 AUDIT FINDINGS

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

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

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

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

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

There are no specific recommendations made in this area however, it is highlighted that any recommendations made have an implicit impact on the prevention and detection of fraud and other irregularities within the College.

7 AUDIT RECOMMENDATIONS – 31 JULY 2014

7.1 31 JULY 2014 MANAGEMENT LETTER

A management letter was prepared by Wylie & Bisset LLP in relation to the accounts of Perth College for the year ended 31 July 2014. There were no points noted for Board attention within the prior year.

8 AUDIT RECOMMENDATIONS – 31 JULY 2015

8.1 CURRENT YEAR RECOMMENDATIONS

There are no points arising as a result of this year's audit.

9 EMERGING ISSUES

The following is included for reference of the Board of Management of Perth College.

CHANGES IN ACCOUNTING FRAMEWORK

The Financial Reporting Council (FRC) issued FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland in March 2013. This is the third new standard to be issued by the FRC since November 2012 and represents the most significant element of the new UK GAAP reporting regime. FRS 102 is applicable for accounting periods beginning on or after 1 January 2015, i.e. 31 July 2016 period ends.

The Further and Higher Education SORP Board has recently developed a new SORP, which was finalised earlier this year and has been issued. Whilst this will only apply to college financial statements from 31 July 2016 management should be aware of the need to draw up a transitional balance sheet at 1 August 2014 in order to facilitate the composition of restated comparative figures at 31 July 2015.

Some of the main areas of change are:

GOVERNMENT GRANTS

The new SORP allows the College to choose between two accounting policies to apply when accounting for Government grants.

Accruals Model

The accruals model is the continuation of existing practice where income matches expenditure.

Performance Model

Under the performance model the College must recognise income from Government grants within the Statement of Comprehensive Income when performance-related conditions are met.

EMPLOYEE BENEFITS

Short-term employee benefits

The College must recognise a liability for the cost of all benefits to which employees are entitled at the reporting date that have not yet been paid. This includes any liability for paid annual leave or contractual leave entitlements such as sabbatical leave, if material.

If the holiday year runs concurrently with the financial year and allows no carryover of holiday then this would be zero. However, where the carryover of holiday is allowed or the holiday year and financial year are not the same then a figure would need to be calculated for the year end unused entitlement.

Post-employment benefits

Actuarial gains and losses must be recorded in the Statement of Comprehensive Income (previously Statement of Total Gains and Recognised Losses)

Multi-employer pension scheme exemption continues to be available when a share of liability cannot be allocated to the employer. A liability is required to be recognised in relation to agreed funding schedules (most likely to impact on those institutions with University Superannuation Scheme but is also relevant for Perth College).

Key management personnel

The total cost of remuneration paid to key management personnel, must now be disclosed. The SORP proposes that this covers the cost of remuneration of the Senior Management Team.

FINANCIAL INSTRUMENTS

Financial instruments are required to be recognised at fair value, with changes reflected through income and expenditure.

OPERATING LEASES

Lease incentives are now to be spread over the whole lease term, whereas before incentives were spread over the period to the first break.

There is a first-time adoption choice available in this area which will mean that leases entered into before the date of transition will not require to be restated.

PROPERTY, PLANT & EQUIPMENT

In accordance with the new SORP there are no significant changes in accounting for property, plant and equipment but there are some first time transition options available which allows an entity to carry out a valuation of an asset class at the transition date and thereafter this fair value to be treated as cost and depreciated over its useful economic life. However, the financial reporting manual (FReM) requires property to be carried at valuation, which is permissible under FRS 102 and the new SORP. On the basis this treatment does not represent a divergence in treatment this therefore requires colleges to undertake a valuation at least every 5 years rendering fair value being treated as cost redundant.

APPENDICES

A STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE BOARD OF MANAGEMENT

The Board of Management are required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992 the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for ensuring that proper accounting records are maintained which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and other relevant accounting standards.

In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board, through its designated office holder, the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year

In preparing the financial statements, the Board of Management is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on a going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud; and
- secure the economical, efficient and effective management of the College's resources and expenditure

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

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

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

B INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of Perth College and its group for the period ended 31 July 2015 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated Income and Expenditure Account, the Statement of Group Historical Cost Surpluses and Deficits, the Statement of Group Total Recognised Gains and Losses, the Balance Sheets, and the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted 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, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Responsibilities of the Members of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income 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 circumstances of the college and its group 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, we 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 knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college and its group as at 31 July 2015 and of its deficit 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 (as amended).

Opinion on regularity

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

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- 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 we are required to report by exception

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

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

We have nothing to report in respect of these matters.

C LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the year ended 31st July 2015.

1. We acknowledge as members of the Board of Management our responsibility for ensuring:
 - a) the financial statements are free of material misstatements including omissions
 - b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2015.
 - c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
 - d) all other records and related information, including minutes of all management meetings, have been made available to you.
 - e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and
 - f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.
2. We have appointed Henderson Loggie as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you.
3. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
4. The College has no liabilities or contingent liabilities other than those disclosed in the accounts.
5. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

6. There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.
7. The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.
8. We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.
9. The College has not contracted for any capital expenditure other than as disclosed in the accounts.
10. The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.
11. We are not aware of any irregularities, including fraud, involving management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.
12. We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.
13. We confirm that we have considered the unadjusted errors set out below. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts. The combined effect of the errors is not material and we do not consider that their absence from the financial statements affects the true and fair view given.

Nature of error and reason for it	Actual error (£)	Unadjusted I&E Effect (£)	Unadjusted B/S Effect (£)
Overprovision of unfunded pension	54,579	(54,579)	(54,579)

D IDENTIFIED AUDIT RISK, APPROACH & CONCLUSION

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

E CONTACT DETAILS

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