



**HENDERSON LOGGIE**  
Chartered Accountants

## **Aberdeen College**

**Annual Audit Report for 2009/10  
to the Board of Management and  
the Auditor General for Scotland**

**External Audit Report No: 2010/03**

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### **Notice: About this report**

This report has been prepared in accordance with our responsibilities under International Standards on Auditing (ISAs) and those set out within Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only Aberdeen College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

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## Executive Summary

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### Corporate Governance

- The Group has shown a surplus for the year of £1.213 million (2008/09 - £0.995 million), and an income and expenditure account balance of £19.886 million at 31 July 2010 (31/07/09 - £18.401 million). The College's position is a surplus for the year of £1.189 million (2008/09 - £0.884 million) and an income and expenditure account balance of £19.708 million at 31 July 2010 (31/07/09 - £18.247 million). The surplus for the year has been enhanced by a £0.516 million reduction in the actuarially assessed pension provision relating to pension costs from early retirements awarded to former employees.
- The College's Corporate Governance Statement confirms that the College complies with all of the provisions of the 2008 Combined Code on Corporate Governance in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2010.
- We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively.
- Wylie and Bisset LLP concluded that 'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Aberdeen College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work.'
- The College has an on-going process for identifying, evaluating and managing its significant risks.

### Performance

- The College updated its Strategic Development Plan during the year. Various financial scenarios were considered, and continue to be considered, as part of the College's planning process. An Interim Review of Achievements in relation to the Strategic Development Plan 2009/12 was reported to the Board in December 2009. During the year Board members carried out a self-evaluation of performance.
- The College has a Risk Management Policy, which was last reviewed in June 2009. The Risk Register is updated on an on-going basis to account for changes in strategic and operational risks.
- Regular performance reports are submitted to the Board and Committees during the year. Performance Indicators are established and use of benchmarking focussed on quality improvement is made by the College.
- The Board of Management discussed and approved the College's Sustainability Framework and Balanced Scorecard at its meeting in February 2010 and these were subsequently submitted to the Scottish Funding Council (SFC).
- At its meeting in June 2010 the Principal presented a paper to the Board providing Members with an overview of the financial position which the College faces over the coming years and the types of strategies that can be adopted to respond to it. The Board was invited to consider the role it might play in supporting the Senior Management Team in addressing the financial challenges the College faces and a number of actions were agreed.
- The College has a Value for Money (VFM) policy setting out the objectives and responsibilities for securing value for money.



## Executive Summary

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### Financial Statements

- On 13 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2010 and on the regularity of the financial transactions reflected in those financial statements.
- The annual financial statements of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.
- The College's Estate Development Strategy was subject to review and updating during the year. Phase 1 of the estates master plan now focuses on the new state-of-the-art Altens construction training facility, the main building of which was completed subsequent to the year-end, and refurbishment of parts of the existing Altens Centre to create accommodation for the College's subsidiary company Aberdeen Skills and Enterprise Training (ASET) Ltd.
- 10 audit and accounting adjustments, together with a number of disclosure adjustments, were made to the financial statements. These mainly affected the balance sheet and increased the surplus for the year by £0.101 million.
- In 2009/10 the College accounted for its participation in the Aberdeen City Council Pension Fund as if it were a defined contribution scheme. This is consistent with the accounting treatment adopted in previous years and current advice provided by the scheme actuaries.
- The College has exceeded its SUMS target for 2009/10 by 5.8% (2008/09 - 2.9%).



# Introduction

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## Background

1. 2009/10 was the fourth year of our five year appointment as external auditors of Aberdeen College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance.
2. The framework under which we operate under appointment by Audit Scotland is as outlined in our Strategic Planning Memorandum and 2009/10 Annual Audit Plan issued on 29 April 2010 and considered and approved by the Audit Committee on 18 May 2010. The scope of the audit was to:
  - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;
  - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and
  - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.
3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include:
  - compliance with legislation and financial regulations;
  - fixed assets transactions, including consideration of any impairment, revaluation of land and buildings and the potential impact on the financial statements; the estates development strategy implementation; on-going estate improvements and maintenance; and compliance with relevant financial reporting standards;
  - recoverability of debtors;
  - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;
  - compliance with Financial Reporting Standard (FRS) 17 Retirement Benefits and provision for pension liabilities for early retirals;
  - the financial results of the College's subsidiary company and the impact on the Group financial statements; and
  - compliance with the SORP on Accounting for Further and Higher Education.



## Introduction

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### Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
5. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

### Acknowledgement

6. Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.



## Corporate Governance

### Financial Position

7. SFC circular SFC/31/2009, issued on 16 October 2009, defines a sustainable college as one which 'continually develops the quality of its learning activities to meet the changing needs of its customers, society and the economy, controls its costs, and year on year secures sufficient income to resource its planned activities and enable a level of current and future investment necessary to maintain its assets.'
8. Table 1 provides a summary of the College's planned and actual financial results, based on the formal returns submitted by the College to the Funding Council.

**Table 1: Comparison of planned and actual financial results**

	2008/09 Actual £000	2009/10 Planned £000	2009/10 Actual £000	2010/11 Planned £000
Financial outturn				
Surplus	995	64	1,213	14
Income and expenditure reserves	18,401	18,289	19,886	19,388
Cash balances	18,629	20,261	19,930	11,195

Source: Audited financial statements and FFR

9. Overall, College income in 2009/10 has decreased by £3.356 million (7.7%) over 2008/09 to £40.054 million. The main reason for this is a decrease of £3.414 million (47.0%) in education contracts income, which relates almost entirely to a reduction in the provision of specialist training by ASET Ltd.
10. Other significant variances in income from last year include a decrease of £0.387 million (23.6%) in the release of deferred capital grants; a decrease of £0.229 million (47.7%) in investment income, reflecting the low bank interest rates during the year; and an increase of £0.481 million (17.6%) in HE fees from UK and European Union students.
11. Expenditure in 2009/10 decreased by £3.633 million (8.6%) over 2008/09 to £38.832 million, primarily due to other operating expenses decreasing by £3.575 million (17.8%) and a decrease in exceptional restructuring (pension) costs of £0.254 million (384.8%). This has been partly offset by an increase in staff costs of £0.189 million (0.9%).
12. There has been an across the board decrease in other operating expenses although the main movements relate to teaching activities, down £1.625 million (24.4%) on 2008/09 due to a decrease in sub-contracting costs for ASET Ltd which has been partly offset by increased costs incurred by the College; premises costs, down £0.706 million (15.5%) due mainly to the negotiation of a new electricity contract from June 2009 and increased scrutiny of repairs and maintenance orders; and administration costs, down £1.054 million (21.9%) due mainly to last year's figure including an exceptional bad debt incurred by ASET Ltd and a reduction in computing equipment and software purchases allocated to administration codes.
13. Exceptional restructuring costs have decreased due to a £0.516 million reduction in the actuarially assessed pension provision relating to pension costs from early retirements awarded to former employees. Staff costs have increased due to pay awards of 1.5% for support staff and 2.5% for teaching staff effective from 1 August 2009 although this has been offset by a decrease in staff numbers (FTEs) from 563 last year to 554 in 2009/10. Staff numbers have fallen as many posts that became vacant during the year were not replaced.



# Corporate Governance

## Financial Position (Cont'd)

- 14. The College's cash balance at 31 July 2010 was £19.930 million, an increase of £1.301 million (7.0%) on the previous year. The level of build up in cash balances is in part linked to the College's Estate Development Strategy. The College has reviewed its treasury management arrangements during the year to ensure that the maximum possible return is achieved on these bank deposits while minimising the level of risk.

### 2009/10 SUMs outturn

- 15. The College's outturn against its 2009/10 SUMs target is shown in table 2.

**Table 2: 2009/10 SUMs outturn**

	2007/08	2008/09	2009/10
SUMs target	151,214	151,214	151,214
SUMs actual	162,045	155,604	160,041
Excess	10,831	4,390	8,827

Source: Audited SUMs returns

- 16. As the College's external auditor we carried out the audit of the SUMs return for 2009/10. We concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

### FRS 17 Retirement Benefits

- 17. In 2009/10 the College accounted for its participation in the local government pension scheme as if it were a defined contribution scheme. This is consistent with the accounting treatment adopted in previous years.
- 18. As reported last year, in a letter to all College Principals, dated 13 November 2008, SFC strongly advised all colleges in the Strathclyde Pension Fund, as well as the Aberdeen and Tayside schemes, to consider accounting for the scheme as a defined benefit scheme. However, SFC acknowledged that there is scope within the FRS 17 standard, as currently worded, to account for the scheme as a defined contribution scheme and that it is ultimately for colleges and auditors to determine the accounting treatment. The College should review compliance with any future direction by SFC.
- 19. The Auditing Practices Board Practice Note 22 The Auditors' Consideration of FRS 17 'Retirement Benefits' – Defined Benefit Schemes requires auditors of entities accounting for multi-employer defined benefit schemes as if they were defined contribution to make enquiries of the directors regarding the basis for their conclusion that the entity's share of the scheme assets and liabilities cannot be identified. Auditors should also consider any relevant professional advice (for example actuarial or legal advice) that the directors may have obtained on this issue. Such enquiries were made via the Vice Principal and Director of Finance & Administration and we also considered advice provided to the College by the Aberdeen City Council Pension Fund actuaries to support the current accounting treatment.



**Financial Position (Cont'd)****Capital Income and Expenditure**

20. The College purchased assets with a value of £11.398 million in the year relating to land and buildings, equipment and ICT (2008/09 - £1.883 million). These have been funded from the College's own funds together with deferred capital grants.
21. Estate expenditure is a high area of spend for the College and will continue to be over the coming years with a capital programme in the region of £110m funded via a mix of College reserves, borrowings, SFC capital grant and land sales (although these are not now anticipated for the next few years). Estate improvement will be important in ensuring that corporate objectives and aims around the physical environment necessary to deliver a high standard of learning and teaching are met. In that regard the College has an agreed Estate Development Strategy and this has been subject to review and updating during the year.
22. Phase 1 of the estates master plan now focuses on the new state-of-the-art Altens construction training facility and refurbishment of parts of the existing Altens Centre to create accommodation for ASET Ltd.
23. The Altens construction training facility main building was completed subsequent to the year-end and became operational on 25 October 2010, which was some three months behind schedule. The cost to 31 July 2010 for constructing and equipping this facility was £9.914 million which has been claimed in capital funding from the SFC (out of total approved funding of £12 million). The refurbishment of the existing Altens Centre for ASET Ltd was at an early stage at the year-end.
24. The College Board of Management has been fully involved in the capital investment appraisal process to date and the Investment and Project Committee was established in February 2008 with responsibilities relating to the control, progression and fulfilment of the Estates Development Strategy. The work of this Committee is reported to the full Board.
25. As part of its programme of work for 2009/10 internal audit reviewed the College's new build project and concluded that the systems and procedures used by the College are 'strong' in this area. No recommendations were made as a result of the review.
26. At 31 July 2010 a full valuation of the College's land and buildings was performed in line with FRS 15 Tangible Fixed Assets. This gave rise to a valuation gain of £3.659 million, which has been credited to the revaluation reserve.

**Provisions**

27. The College has a provision in its balance sheet of £4.956 million (31/07/09 - £5.472 million) relating to pension costs from early retirements awarded to former employees. As noted at paragraph 13 above, the provision has decreased by £0.516 million in the year to reflect the actuarially assessed pension liability. There is also a provision of £1.132 million (31/07/09 - £1.132 million) relating to the excess of cost over payments to the local government pension scheme.

**Systems of Internal Control****Control environment**

28. No material weaknesses in the accounting and internal control systems were identified during the 2009/10 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

**Internal Audit**

29. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Wylie and Bisset LLP provided internal audit services to the College in 2009/10. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate.
30. Wylie and Bisset LLP concluded that 'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Aberdeen College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work.'

**Her Majesty's Inspectorate of Education (HMIE) Review**

31. We are also required by Audit Scotland's Code of Audit Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.
32. The College received a very positive report from HMIE following its annual engagement visit conducted in December 2009. Two areas of sector leading and innovative practice were identified for sharing with other colleges.

**Corporate Governance Arrangements**

33. The College has continued to develop its corporate governance arrangements over 2009/10 including: review of the Code of Conduct for Board members; review of the Standing Orders; review of the effectiveness of the terms of reference for each Committee of the Board of Management; review and update of the Induction Procedure for New Members; and review of the Memorandum of Understanding between the Board and ASET Ltd. The corporate governance arrangements were reviewed by the College's internal auditors during the year who confirmed that the arrangements in place were 'strong'.
34. On 30 September 2010 Audit Scotland published a report on The Role of Boards, which looks at the role boards play in overseeing the performance of different types of public bodies and will be of interest to College Board members. In due course Audit Scotland will be asking auditors to follow-up the report and summarise what action public bodies have taken in response and if they have implemented the report's recommendations. It is anticipated that the report will be considered by the College Board of Management as part of the next self-evaluation of its performance, which is expected to begin in February 2011.

## Corporate Governance

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### Corporate Governance Arrangements (Cont'd)

35. Other sector-wide developments include the working group convened by Scotland's Colleges, the SFC and the Chartered Institute of Public Finance and Accountancy to support the development of a bespoke framework of governance for the College sector. In May 2010 the working group produced a consultation draft of a document entitled Delivering Good Governance in Scotland's Colleges: A Framework. The framework is based on The Good Governance Standard for Public Services and incorporates the elements of the Financial Reporting Council (FRC) Combined Code on Corporate Governance that are relevant to the sector. It is envisaged that the framework will replace the Guide for College Board Members published by the Association of Scotland's Colleges in 2006. It was noted that the draft framework was considered by the Board of Management at its meeting on 14 June 2010.

### Corporate Governance Statement

36. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.
37. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal controls.
38. The College's corporate governance statement for 2009/10 states the College complies with all of the provisions of the June 2008 Combined Code on Corporate Governance in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2010.
39. Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.
40. In May 2010 the FRC issued a new edition of the Code, which will apply to financial years beginning on or after 29 June 2010.

### Fraud and irregularity, standards and conduct, and prevention and detection of corruption

41. During 2009/10 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.
42. The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations and a Prevention of Fraud Policy. These documents are reviewed and updated annually.

## Performance

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### Introduction

43. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.
44. No performance audit studies were identified by Audit Scotland for the College during 2009/10.

### Strategic and Operational Plans

45. At its meeting on 8 February 2010 the Board approved a draft Strategic and Business Planning Policy document setting out responsibility for the planning process, delegated responsibility, desired timetable and the suggested content of each document at a high-level.
46. The College's Strategic Development Plan was updated for the period 2010/11 to 2012/13, incorporating strategic aims and objectives agreed by the Board at its meetings on 17 November 2009 and 19 January 2010.
47. At its meeting in January 2010 the Board also received a presentation from the Vice Principal and Director of Finance & Administration on the financial environment. The purpose of the presentation was to aid the Board's consideration of the College's financial position and the challenges facing the College in the planning period and beyond (the next ten years). Information was provided on the national economic context, the condition of the public finances and possible scenarios that the College might face.
48. Further discussion took place at the Board Residential Event in February 2010 and the plan was adopted at the Board meeting on 14 June 2010.
49. The College also prepares an Operational Plan each year. Although the Board of Management has established a clear separation between the Board's governance role and the management role of the College's executive, the Board considered pertinent matters for inclusion in the 2010/11 plan at its meeting in June 2010. These included matters relating to the conduct of business by the Board and its committees; monitoring of the achievement of aims and objectives; and compliance with obligations set by central authorities.

### Risk Management

50. The College has a Risk Management Policy in place, which was last reviewed by the Finance and General Purposes Committee in June 2009. The College's Risk Register was reviewed by the Senior Management Team in July 2010 and updated to reflect the current assessment of the strategic and operational risks faced by the College.
51. Internal audit reviewed the College's risk management arrangements during the year and concluded that they were 'strong'.

### Performance management

52. The Board of Management receives regular reports on its performance in the form of Performance Indicators, covering a number of areas, including course provision and HR. Regular reports are presented to the Course Provision and Student Service Committee and the Human Resources Committee. Use is made of benchmarking data available for the Further Education sector in assessing the College's performance.



## Performance

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53. An Interim Review of Achievements in relation to the Strategic Development Plan 2009/12 was reported to the Board in December 2009 to enable the Board to consider progress made with the strategic aims relating to governance & management and estates & environment. A comprehensive Annual Review was published during the year summarising the progress made by, and the achievements and successes of, the College during 2008/09.
54. In October 2009 the SFC issued guidance on developing a sustainability framework under cover of SFC/31/2009. The sustainability framework is a statement endorsed by the Board of Management to explain how and why they consider the College to be sustainable. It should incorporate performance measures presented in the form of a balanced scorecard using the listing of the core performance indicators provided at Annex D of SFC/31/2009, which should also be included within the College's Operating and Financial Review. The framework requires to be produced as a supplement to the main Strategic Plan. SFC/31/2009 also required colleges to confirm that they have conducted appropriate scenario planning in light of possible reductions in public funding and the wider implications of changing economic conditions.
55. The Board of Management discussed and approved the College's Sustainability Framework and Balanced Scorecard at its meeting on 8 February 2010 and these were subsequently submitted to the SFC. As noted previously, various scenarios were considered, and continue to be considered, as part of the College's planning process.

### **Self-Evaluation**

56. At its meeting on 16 March 2010 the Board resolved to continue to use the existing framework, i.e. that derived from the European Framework for Quality Management (EFQM) framework, for the collective self-evaluation of the Board and to continue the process established in 2008 by which Members held individual meetings with the Chair of the Board and that any matters arising from these meetings be incorporated into the final self-evaluation report. At its meeting on 18 May 2010 the Board undertook a collective review of its performance and the Chair of the Board met with individual members in May / June 2010. Templates were provided to assist the Board to carry out its self-evaluation covering three key areas: governance, strategic planning and monitoring. The results of the collective review were considered at the Board meeting on 14 June 2010 and an action plan was established to address identified areas for improvement and development needs.

### **Financial management**

57. The Senior Management Team is fully briefed on the position against budget. The format of the monthly management accounts includes a commentary on variances against budget for income and expenditure account, balance sheet and cash flow figures.
58. The Finance and General Purposes Committee monitor performance against the College's approved annual revenue and capital budgets. The Committee receives a paper at each meeting providing a commentary on the forecast financial outturn position for the College for the financial year in the format used for the management accounts.
59. The Finance and General Purposes Committee also receives a report at each meeting providing information on the initial projection of the level of student activity in the academic year. Forecast WSUMs figures are provided for each Academic Sector and Non-Sector Teams.
60. At its meeting on 14 June 2010 the Principal presented a paper to the Board providing Members with an overview of the financial position which the College faces over the coming years and the types of strategies that can be adopted to respond to it. The Board was invited to consider the role it might play in supporting the Senior Management Team in addressing the financial challenges the College faces and a number of actions were agreed.



## Performance

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### **Efficient Government Initiative (EGI)**

61. The College submitted updated EGI information schedules to the SFC in January 2010. This showed total annual cash efficiencies of £1.200 million for 2008/09 and forecasts of £1.195 million and £1.190 million for 2009/10 and 2010/11 respectively. The largest cash efficiencies relate to increased efficiency in deployment of permanent teaching staff following review of student recruitment in October each year; centralisation, rationalisation and streamlining of processes in administration functions; increased class sizes; centralisation, rationalisation and streamlining of processes in student administration functions; and lower permanent teaching staff costs arising from increasing use of new technologies and new pedagogical approaches. At the date of this report the quantification of actual savings for 2009/10 was not available. This information will be included on the return to the SFC due to be submitted in January 2011.

### **Value for Money**

62. The College has a VFM policy setting out the objectives and responsibilities for securing value for money. SFC benchmarking has confirmed the College has low unit costs of operation. The College's benchmarking activities help identify possible areas for improvement action.
63. One specific VFM review was carried out by the College's internal auditors during the year:

#### **VFM – Space Utilisation**

- The internal auditors concluded that the systems and procedures used by the College are 'strong' in this area although one low priority recommendation was made, which has been actioned by management.



## Financial Statements

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### Audit Opinion

64. On 13 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2010 and on the regularity of the financial transactions reflected in those financial statements.

### Audit Completion

65. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 3 the three key elements of the audit process.

**Table 3: Key elements of the audit process**

**Completeness of draft financial statements**

A set of draft financial statements was received at the start of the final audit visit. These were of a high standard and required minimal presentational changes as part of the audit process.

**Quality of supporting working papers**

In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. A full set of supporting working papers were provided in line with this list from the outset of the audit and were of a suitably high standard.

**Response to audit queries**

We are pleased to note that all audit queries were dealt with in a timely manner.

### Audit Adjustments and Confirmation

66. In table 4 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process. 13 further trivial adjustments were not processed. Explanations for material adjustments are given at paragraph 68 below.



## Financial Statements

### Audit Adjustments and Confirmation (Cont'd)

**Table 4: Audit adjustments**

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
HP liability < 1yr			124	
Prepayments				31
Non-recoverable VAT		18		
Computer equipment lease		75		
Loans due < 1 yr			46	
Loans due > 1yr				46
Fee income	17			
Trade debtors				17
Depreciation – computers			5,384	
Computers – cost				5,384
Computer equipment lease	36			
HP liability < 1yr				36
Non-recoverable VAT	11			
HP liability < 1yr				11
HP liability < 1yr			30	
HP liability > 1yr				30
Accrued income			54	
Accrual and deferred income				54
Deferred capital grants			126	
Deferred income				126
Accrued income			245	
Non-recoverable VAT		76		
Education contracts income	4			
Assets in course of construction				173
	=====	=====	=====	=====
	68	169	6,009	5,908
	=====	=====	=====	=====

67. In addition, a number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

68. One of the audit adjustments noted in Table 4 was material in value although it had no overall effect on the financial statements. Computers bought outright and leased by the College in previous years and fully written off by 31 July 2010 have been written out of fixed assets cost and aggregate depreciation. The computers are no longer used by the College. The gross cost and aggregate depreciation amounted to £4.071 million for owned assets and £1.313 million for leased assets. The effect of these adjustments on the College's net asset position and the reported surplus for the year is £nil.

#### Confirmations and Representations

69. We confirm that as at 2 December 2010, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

70. In accordance with auditing standards, we obtained representations from the College on material issues.