



**HENDERSON LOGGIE**  
Chartered Accountants

## **Aberdeen College**

**Annual Audit Report for 2010/11  
to the Board of Management and  
the Auditor General for Scotland**

**External Audit Report No: 2011/03**

**Draft Issued: 3 November 2011**

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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 £0.782 million (2009/10 - £1.213 million), and an income and expenditure account balance of £20.950 million at 31 July 2011 (31/07/10 - £19.886 million). The College's position is a surplus for the year of £0.755 million (2009/10 - £1.189 million) and an income and expenditure account balance of £20.745 million at 31 July 2011 (31/07/10 - £19.708 million).
- The College's Corporate Governance Statement confirms that the College complies with all of the provisions of the 2010 UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2011.
- 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 2010/13 was reported to the Board in December 2010.
- During the year Board members carried out a self-evaluation of performance.
- The College has a Risk Management Policy. 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 College has a Value for Money (VFM) policy setting out the objectives and responsibilities for securing value for money.
- Regular financial planning and monitoring information is considered by the Board and its committees.
- In June 2011 the Board reviewed the Strategic and Business Planning Policy and the Annual Planning Cycle. Changes were made to the arrangements and documents involved in the planning process. A shorter, more accessible Strategic Plan has now replaced the previous Strategic and Business Plans, and a new End of Year Review of the Operational Plan is now planned.



## Executive Summary

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### Financial Statements

- On 12 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2011 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 Estates Development Strategy Road Map, published in September 2011, recognises that implementation of the estates strategy will now be over a longer period than originally envisaged due to the current funding position. The College now plans to finance the estates development plans from its own resources without borrowing or seeking central capital funding. This will involve seeking SFC approval for the College to retain the proceeds from several planned property sales. The overall total spend envisaged over the period to 2017/18 is £21.5 million. Phase 1 of the estates strategy focused 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. Phase 2 of the estates strategy is underway with refurbishment of the Gallowgate Centre.
- The College embarked on a voluntary severance scheme during the year which resulted in 57 acceptances from members of staff at a cost of £1.082 million. Annual savings of £1.432 million have been realised from this action.
- A number of audit and accounting adjustments were made to the financial statements. 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.
- In 2010/11 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 2010/11 by 2.6% (2009/10 - 5.8%).

### Outlook

- The future for all colleges will include change driven by funding constraints and Scottish Government plans for rationalisation of education provision to over 16s. A number of reviews and consultations are currently underway to inform change, with increased regionalisation a key message from the Scottish Government.
- The College has taken several steps to prepare for the changes, involving Board members in the process. In addition to identifying savings to address immediate funding reductions financial planning has been undertaken for the three-year period to 2013/14, with various scenarios considered.
- In October 2011 the Board adopted the draft NE Scotland Colleges Regional Federation Agreement which will be used to develop a closer relationship with Banff and Buchan College. The first step to taking this forward was a joint meeting of the Boards of the two colleges on 27 October 2011.



# Introduction

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## Background

1. 2010/11 was the fifth and final 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 2010/11 Annual Audit Plan issued on 9 May 2011 and considered and approved by the Audit Committee on 17 May 2011. 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. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.
6. 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

7. 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

8. 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.'
9. 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**

	2009/10 Actual £000	2010/11 Planned £000	2010/11 Actual £000	2011/12 Planned £000
Financial outturn				
Surplus	1,213	14	782	126
Income and expenditure reserves	19,886	19,388	20,950	19,499
Cash balances	19,930	11,195	19,350	15,694

Source: Audited financial statements and Financial Forecast Return (FFR)

10. Overall, College income in 2010/11 has increased by £0.140 million (0.3%) over 2009/10 to £40.194 million.
11. Significant variances in income from last year include an increase of £0.613 million (2.2%) in SFC recurrent grants; a decrease of £0.243 million (19.4%) in the release of deferred capital grants; a decrease of £0.386 million (54.1%) in other SFC grants; and an increase in turnover within ASET Limited of £0.154 million (4.1%).
12. Expenditure in 2010/11 increased by £0.571 million (1.5%) over 2009/10 to £39.403 million, primarily due to an increase in exceptional restructuring costs of £1.862 million. This has been partly offset by a decrease in staff costs of £1.065 million (5.1%) and a decrease in other operating expenses of £0.160 million (1.0%).
13. Although overall there has only been a small decrease in other operating expenses there are some significant variances in individual categories of expenditure. The main movements relate to teaching activities, down £1.048 million (4.9%) on 2009/10 due in part to a reduction of £0.243 million in the spend on text / library books; premises costs, up £1.175 million (24.9%) due mainly to the costs associated with the new Altens campus as well as renegotiated contracts with external service providers at higher rates than before; administration costs, up £0.973 million (11.0%) due mainly to an increase in bad debts and computer support costs; and agency costs, down £0.382 million (13.2%) due to a reduction in the use of agency staff.
14. Exceptional restructuring costs have increased due to a £0.293 million increase (2009/10 - £0.516 million decrease) in the actuarially assessed pension provision relating to pension costs from early retirements awarded to former employees together with an increase in voluntary severance costs of £1.067 million. Staff costs have decreased due to a decrease in staff numbers (FTEs) from 554 last year to 521 in 2010/11 although this has been partly offset by a pay award of 0.75% for all staff effective from 1 August 2010. Staff numbers have fallen as many posts that became vacant during the year were not replaced and towards the year-end the voluntary severance scheme was implemented.



## Corporate Governance

### Financial Position (Cont'd)

15. The College's cash balance at 31 July 2011 was £19.350 million, a decrease of £0.580 million (2.9%) on the previous year. The level of cash balances is in part linked to the College's Estate Development Strategy.

#### 2010/11 SUMs outturn

16. The College's outturn against its 2010/11 SUMs target is shown in table 2.

**Table 2: 2010/11 SUMs outturn**

	2008/09	2009/10	2010/11
SUMS target	151,214	151,214	151,214
SUMS actual	155,604	160,041	155,070
Excess	4,390	8,827	3,856

Source: Audited SUMs returns

17. As the College's external auditor we carried out the audit of the SUMs return for 2010/11. 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.
18. The 2011/12 SUMs target has been revised downward to 144,947 as a result of the funding position notified by the SFC in March 2011 and discussed further in paragraphs 50 to 52.
- FRS 17 Retirement Benefits**
19. In 2010/11 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.
20. As reported in previous years, 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.
21. 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.



## Corporate Governance

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### Financial Position (Cont'd)

#### Capital Income and Expenditure

22. The College purchased assets with a value of £7.324 million in the year relating to land and buildings, equipment and ICT (2009/10 - £11.398 million). These have been funded from the College's own funds together with deferred capital grants.
23. The College has an agreed Estate Development Strategy which was updated in September 2010. This forms part of the College's strategic plan.
24. Estate expenditure is a high area of spend for the College and will continue to be over the coming years although the level of anticipated spending has reduced significantly following cuts in central capital funding.
25. The Estates Development Strategy Road Map, published in September 2011, recognises that implementation of the estates strategy will now be over a longer period than originally envisaged due to the current funding position. The College now plans to finance the estates development plans from its own resources without borrowing or seeking central capital funding. This will involve seeking SFC approval for the College to retain the proceeds from several planned property sales. The overall total spend envisaged over the period to 2017/18 is £21.5 million.
26. The Road Map also recognises that further stages of the implementation must tie in with the requirements flowing from current reviews of the future curriculum, and related information technology and accommodation needs.
27. Phase 1 of the estates strategy focused 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.
28. The Altens construction training facility main building was completed during the year and became operational on 25 October 2010, which was some three months behind schedule. The total cost to 31 July 2011 for constructing and equipping this facility was £12.464 million, the majority of which has been claimed in capital funding from the SFC for the total approved funding of £12 million. The extensive refurbishment of the existing Altens Centre for ASET Ltd was also completed during the year at a cost of £1.408 million, funded by the College, whilst the refurbishment of ASET's Eagle Training Platform continues and is also being funded by the College. Up to the year-end, the costs for this project were £1.059 million.
29. Phase 2 of the estates strategy is underway with refurbishment of the Gallowgate Centre.
30. Phase 3 is concerned with the future of the Gordon Centre, which it has been agreed to close, and the Clinterty Centre, on which a decision has still to be taken.
31. The College Board of Management has been fully involved in the capital investment appraisal process to date and the Investment and Project Committee continues to have responsibilities relating to the control, progression and fulfilment of the Estates Development Strategy. The work of this Committee is reported to the full Board.

#### Provisions

32. The College has a provision in its balance sheet of £5.249 million (31/07/10 - £4.956 million) relating to pension costs from early retirements awarded to former employees. As noted at paragraph 14 above, the provision has increased by £0.293 million in the year to reflect the actuarially assessed pension liability. There is also a provision of £1.132 million (31/07/10 - £1.341 million) relating to the excess of cost over payments to the local government pension scheme.



## Corporate Governance

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### Systems of Internal Control

#### Control environment

33. No material weaknesses in the accounting and internal control systems were identified during the 2010/11 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

34. 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 2010/11. 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.
35. 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

36. 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.
37. The College received a very positive report from HMIE following its annual engagement visit conducted on 7 March 2011.
38. The next four yearly external HMIE review is timetabled for November 2011 and will focus on three key principles: high quality learning, learner engagement and quality culture.

### Corporate Governance Arrangements

39. The College has continued to develop its corporate governance arrangements over 2010/11 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 office Bearers; and review of the Memorandum of Understanding between the Board and ASET Ltd.
40. 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 September 2011 we completed an Audit Scotland Impact Assessment on how the College had responded to the report. We noted that the Chair of the College Board of Management and the College Secretary had considered the report and concluded that the College was following the recommendations made for public bodies. The outcome of this review fed into the Board of Management annual self-evaluation.



## Corporate Governance

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### Corporate Governance Arrangements (Cont'd)

41. 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) 'UK Corporate Governance Code' that are relevant to the sector. It was originally envisaged that the framework would replace the 'Guide for College Board Members' published by the Association of Scotland's Colleges in 2006 however a new Guide is currently being developed as part of a separate exercise. At the present time the framework document has not been finalised and no timescale has been set for this.
42. In addition, Scottish Ministers have commissioned an Independent Review of College Governance. The review is being chaired by Professor Russel Griggs, chair of Dumfries and Galloway College board. The Review will develop recommendations which will help bring a new focus to further education governance while maintaining the important balance between accounting for public funds and preserving the benefits of an autonomous sector. The Review is expected to conclude by the end of 2011.
43. At its meeting on 13 June 2011, the Board was provided with information on the effect of the implementation of the Bribery Act as of 1 July 2011. An Anti-Bribery and Corruption Statement was drafted to demonstrate that the Board had considered the Act and had put appropriate procedures in place.

### Corporate Governance Statement

44. 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.
45. 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.
46. The College's corporate governance statement for 2010/11 states the College complies with all of the provisions of the June 2010 UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2011. The 2010 version of the Code included a small number of changes relevant to the sector. These related to: new principles on the role of the Chair of the Board and non-executive Board members; new and amended principles on the composition of, and appointments to, the Board; a new principle on the time commitment expected of Board members; a new provision that the Chair should agree and regularly review the training and development needs of each Board member; and an amended principle on the Board's risk management responsibilities.



## Corporate Governance

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### Corporate Governance Statement (Cont'd)

47. Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.

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

48. During 2010/11 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.
49. 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.

### Outlook

#### 2011/12

50. SFC funding to the College for 2011/12 is significantly lower than in previous years and has been the subject of Board discussion on several occasions. In May 2011 the Board considered updated information about the College's allocation for 2011/12. This identified revenue funding of £25.373 million and capital funding of £1.111 million, a reduction in total of £3,203 million or 10.8%.
51. The 2011 FFR shows a budgeted 2011/12 surplus of £0.126 million (2010/11 £0.014 million). This is based on total budgeted income of £37.073 million (2010/11 £40.702 million) and expenditure of £36,947 million (2010/11 £40.688 million). The actual position for the two months to the end of September 2011 shows that income is ahead of budget mainly due to the timing of invoicing of education contract fees. Expenditure continues to be controlled across all areas to give a surplus ahead of the budgeted position.
52. Savings totalling £3.060 million were identified across a broad range of areas in March 2011 following interim funding information received in December 2010. A number of actions have been taken to facilitate these, and other savings, being achieved. These include establishment of the voluntary severance scheme, implementation of which has realised recurrent annual savings of £1.432 million. Realisation of the savings has been made during 2010/11 and into 2011/12.

#### Beyond 2011/12

53. The future for all colleges will include change driven by funding constraints and Scottish Government plans for rationalisation of education provision to over 16s. A number of reviews and consultations are currently underway to inform change.
54. Scottish Government proposals indicate that funding mechanisms will be simplified in future, possibly as early as 2012/13. Funding will follow regional need, based on demography and economy, rather than continue to follow previous patterns based on historic performance. Rationalisation of course provision and removal of duplication is expected to be achieved through closer working or mergers of institutions.
55. The College has taken several steps to prepare for the changes, involving Board members in the process. In addition to identifying savings to address immediate funding reductions financial planning has been undertaken for the three-year period to 2013/14, with various scenarios considered. The Board also reviewed the Policy on Reserves in February 2011 ahead of the scheduled review and further work on regional collaboration has been undertaken.



## Corporate Governance

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### Outlook (Cont'd)

#### Collaboration

56. As co-members of the North-east Hub developed by the SFC to promote progression from further to higher education, and other joint arrangements, the College has worked closely with Banff & Buchan College and Robert Gordon University for a number of years.
57. In October 2011, in response to a number of indications towards closer regionalisation from the SFC and the Scottish Government, the Board adopted the draft NE Scotland Colleges Regional Federation Agreement. The agreement will be used to develop a closer relationship between the two colleges. Collaboration is expected to cover curriculum planning, development and delivery; marketing; liaison with local authorities and universities; and student support. Seeking opportunities to share aspects of corporate services is also identified as an area where collaboration may develop. The Board committed to consideration of further collaboration and development of a route-map to facilitate implementation of the agreement.
58. The first step to taking this forward was a joint meeting of the Boards of the two colleges on 27 October 2011.

## Performance

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### Introduction

59. 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.
60. No mandatory performance audit studies were identified by Audit Scotland for the College during 2010/11. Audit Scotland's planning guidance identified optional follow-up work on improving public sector purchasing and the use of consultancy services. This was discussed with management but neither follow-up was undertaken. One impact assessment was completed as required and noted in paragraph 40.

### Strategic and Operational Plans

61. The College's Strategic Development Plan was updated for the period 2011/12 to 2013/14, incorporating strategic aims and objectives, and was agreed by the Board at its meetings in March 2011 (draft) and June 2011 (final draft adopted).
62. 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 2011/12 plan at its meeting in June 2011. 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. The plan was subsequently adopted by the Board.
63. In June 2011, following discussion at its annual residential event in February, at which the draft Strategic Plan for 2011/12 to 2013/14 was discussed, the Board reviewed the Strategic and Business Planning Policy and the Annual Planning Cycle. Engagement and consultation arrangements with a number of stakeholders were also documented to show how they linked into the College's management and planning processes. Changes were made to the arrangements and documents involved in the planning process. A shorter, more accessible Strategic Plan has now replaced the previous Strategic and Business Plans, and the Operational Plan will now be considered by the Senior Management Team rather than the Board. A new End of Year Review of the Operational Plan is also now planned in addition to the Interim Review.

### Risk Management

64. 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 2011 and updated to reflect the current assessment of the strategic and operational risks faced by the College.

### Performance management

65. 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.
66. An Interim Review of Achievements in relation to the Strategic Development Plan 2010/13 was reported to the Board in December 2010 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 2009/10.

## Performance

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### Self-Evaluation

67. At its meeting on 15 March 2011 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 13 June 2011 the Board undertook a collective review of its performance after the Chair of the Board had met with individual members in May 2011. 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 by the Board and an action plan was established to address identified areas for improvement and development needs.

### Financial management

68. 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.
69. 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.
70. 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.
71. At its meeting on 15 March 2011 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 strategies being adopted to respond to it (refer to paragraphs 50 to 58 above).

### Value for Money

72. 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.



## Financial Statements

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### Audit Opinion

73. On 12 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2011 and on the regularity of the financial transactions reflected in those financial statements.

### Audit Completion

74. 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 and Accounting Adjustments and Confirmation

75. In Table 4 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process. Explanations for material adjustments are given at paragraph 77 below. A further 10 potential adjustments were not processed. The overall impact of these unadjusted audit differences on the financial statements would be to decrease the reported surplus for the year by £0.013 million, which is a trivial amount.





# Financial Statements

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

**Table 4: Audit and accounting adjustments**

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
<b>Adjusting entries:</b>				
Prepayments and accrued income			31	
Other operating expenses		31		
<i>Release of prepayment</i>				
Tuition fees and education contracts	88			
Accruals and deferred income			63	
Income and expenditure reserve				155
Tuition fees and education contracts	4			
<i>Opening reserve adjustment</i>				
Freehold additions at cost			634	
Accruals and deferred income				634
<i>Additional valuation certificate received from the contractor for Gallowgate refurbishment</i>				
Freehold additions at cost			16	
Accruals and deferred income				16
<i>Additional valuation Gallowgate – retention</i>				
Exceptional restructuring costs	293			
Pension provision				293
<i>Unfunded early retirals provision increase following receipt of actuarial valuation</i>				
Computer additions			96	
HP liability <1yr				48
HP liability >1yr				48
<i>Agreement for computer equipment omitted from draft accounts</i>				
	385	31	840	1,194
	=====	=====	=====	=====
<b>College only (no affect on Group position)</b>				
Gift Aid		782		
Amount owed by subsidiary company <i>ASET gift aid to the College</i>			782	
	-	782	782	-
	=====	=====	=====	=====

## Financial Statements

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

**Table 4: Audit and accounting adjustments (Cont'd)**

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
<b>Reclassification entries:</b>				
Bank loan > 1 year			8	
Bank loan < 1 year				8
<i>Correction in split of amounts due less than and greater than one year</i>				
Prepayments and accrued income			234	
Accruals and deferred income				234
<i>Reallocation of VAT debtor</i>				
Other operating expenses	9			
Depreciation and amortisation		9		
<i>Reallocation of computer equipment posted to depreciation in error</i>				
Prepayments and accrued income			179	
Accruals and deferred income				179
<i>Grossing up of hardship debtor and creditor</i>				
Deferred capital grants			446	
Deferred income				446
<i>Reallocation of unallocated capital grants to deferred income</i>				
	9	9	867	867
	=====	=====	=====	=====

76. 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.
77. Two of the accounting adjustments noted in Table 4 were material in value. The first related to a £0.634 million adjustment to incorporate an updated valuation for the contractor's work at the Gallowgate. The second was a £0.446 million reclassification of unallocated deferred capital grant to deferred income. Once allocated against capital expenditure the income becomes a deferred capital grant and is released to the Income & Expenditure Account to match the life of the funded asset. The effect of these adjustments on the College's net asset position and the reported surplus for the year is £Nil.

#### Confirmations and Representations

78. We confirm that as at 6 December 2011, 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.
79. In accordance with auditing standards, we obtained representations from the College on material issues.