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Chartered Accountants

Stevenson College Edinburgh

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

External Audit Report No: 2011/02

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Notice: About this report

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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

Corporate Governance

- The College has shown a surplus for the year of £1.103 million (2009/10 - £1.596 million), against an original budgeted surplus of £0.372 million set out in the 2010 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC) in June 2010. The income and expenditure account balance at 31 July 2011 was a surplus of £11.152 million (31/07/10 - £9.818 million).

- 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 Stevenson College Edinburgh 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's Corporate Governance Statement confirms that the College has complied with the requirements of the UK Corporate Governance Code, in so far as they apply to the further education sector, for the year to 31 July 2011.

- We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear, from our review of them, to be adequate, well designed and operating effectively.

Performance

- The College's latest Strategic Plan, covering the period 2009-14, was approved by the Board of Management in September 2009. There are four strategic aims, which are supported by key strategic objectives, operational targets and key performance indicators (KPIs).

- Risk management arrangements include the on-going assessment of the College's Risk Register to reflect current strategic and operational risks.

- Performance reports were submitted to the Board of Management and its committees during the year.

- Financial management arrangements ensure appropriate and timely financial reporting at strategic and operational levels.

Financial Statements

- On 16 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial settlements 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.

- 10 audit and accounting adjustments, together with a number of minor disclosure adjustments, were made to the financial statements. These affected the both the income and expenditure statement and the balance sheet and increased the surplus for the year by £0.204 million.

- The College has exceeded its WSUMS target for 2010/11 by 553 WSUMs (0.6%); (2009/10 – 689 WSUMs, exceeded by 0.8%).

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.

- Following extensive discussions with Jewel & Esk College regarding possible merger to form a new college in Edinburgh, increased awareness of the SFC objective of an Edinburgh & Lothians Regional structure has led to the inclusion of Edinburgh's Telford College in future merger discussions. These discussions are likely to lead to an announcement of a new college in Edinburgh in the Academic Session 2012/13.

- The College is also involved in collaboration projects with a number of other organisations including a Learning Transformation Consortium and Business Engagement Forum.

- There is a further ongoing material risk to the FE sector in relation to how the global economy will perform which could affect the College's commercial and international income. In addition, changes to rules relating to international students implemented by the UK Border Agency may have the impact of reducing future international student numbers.

Background

1. 2010/11 was the final year of our five year appointment as external auditors to Stevenson College Edinburgh ('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 18 April 2011 and considered and approved by the Audit Committee on 1 June 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 risks 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: estates projects; on-going estate improvements and maintenance; application of the capitalisation threshold; and compliance with relevant financial reporting standards;

   - recoverability of debtors;

   - achievement of SUMs, commercial income targets and budgets to ensure that the College's financial position does not deteriorate;

   - compliance with FRS 17 Retirement Benefits and calculation of the provision for pension liabilities for early retirals;

   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure; and

   - compliance with the SORP on Accounting for Further and Higher Education.

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.

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 Financial Forecast Returns (FFRs) 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	1,596	372	1,103	50
Surplus (excl. FRS17 adjustments)	485	372	1,074	50
Income and expenditure reserves (excl. pension reserve)	9,818	10,465	11,152	11,291
Income and expenditure reserves (incl. pension reserve)	6,668	6,187	8,736	8,141
Cash balances	8,077	7,045	8,656	7,654

Source: Audited accounts and 2010 and 2011 FFRs

9. Overall, College income in 2010/11 has increased by £0.537 million (2.1%) over 2009/10 to £26.585 million. The main reasons for this include:

- an increase of £0.259 million (1.3%) in SFC grant income to £19.794 million, largely due to extra economic downturn funding; and
- an increase of £0.216 million (21.4%) in other grant income, largely as a result of a full year of new employability skills and employment related contracts that West Edinburgh Action secured late in 2009/10.

10. Expenditure in 2010/11 increased by £1.030 million (4.2%) over 2009/10 to £25.482 million. This was largely due to the 2009/10 figures including an exceptional FRS 17 non-cash adjustment relating to the Government's decision to link future pension increases to CPI rather than RPI which gave rise to a past service gain of £1.281 million. Furthermore, in 2009/10 there was a full revaluation of the College's land and buildings which resulted in a loss of £0.374 million being charged to the Income and Expenditure Account. Excluding the prior year exceptional gain and revaluation loss expenditure has increased by only £0.123 million (0.5%) over 2009/10.

Financial Position (Cont'd)

11. The main reasons for the £0.123 million underlying increase in expenditure was an increase of £0.288 million (5.1%) in other operating expenses, largely as a result of increased expenditure on projects, expenditure on ICT and equipment (under the capitalisation threshold of £10,000) using the newly set up College development fund, and professional services incurred on the merger project. This was offset by a number of items, including:

- a decrease of £0.144 million (84.2%) in interest payable to £0.027 million, of which £0.138 million relates to interest charge on the FRS 17 pension liabilities which is an interest income of £0.036 million in 2010/11. This has resulted from changes in actuarial assumptions.
- a slight decrease in staff costs of £0.079 million (0.2%) to £18.203 million. Staff numbers show a decrease on last year to 469 full-time equivalents against 485 in 2009/10 and there was no pay award during the year. Reduced pay costs as a result of a reduction in staff were partly offset by an increase in voluntary severance costs of £0.116 million to £0.440 million.

12. The SFC requires external auditors to check that any severance payments to senior staff, classified as those earning more than £50,000 per annum, meet the requirements set out in SFC Circular letter FE/03/2000. During 2010/11 we confirmed that there were no severance payments made to any senior member of staff.

13. The College's cash balance at 31 July 2011 was £8.656 million, an increase of £0.579 million (7.2%) on the previous year. The main reasons for this movement are cash generated from the operating surplus (£1.103 million), offset by changes in non-cash items and movements in balance sheet account balances. The College plans to use part of the cash balance to fund the North Campus development as outlined at paragraph 20 below.

2010/11 WSUMS outturn

14. The College's outturn against its 2010/11 WSUMs target is shown in table 2. The 2010/11 target includes the delivery of 3,998 additional WSUMs funded by the SFC via economic downturn monies.

Table 2: 2010/11 WSUMs outturn

	2006/07	2007/08	2008/09	2009/10	2010/11
WSUMs target	88,670	89,734	89,734	91,163	93,732
WSUMs actual	89,650	90,854	91,167	91,852	94,285
Excess	980	1,120	1,433	689	553

Source: Audited WSUMs returns.

15. The College's internal auditors carried out the audit of the WSUMs return for 2010/11. They 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

16. The College accounted for its participation in the local government pension scheme as a defined benefit scheme and accordingly this has resulted in the College's share of the net pension liabilities within the Lothian Pension Fund (LPF) being shown on the Balance Sheet. This is consistent with the accounting treatment adopted in 2009/10.

Financial Position (Cont'd)

FRS 17 Retirement Benefits (Cont'd)

17. Note 26 to the financial statements highlights the College's net pension liability position of £2.416 million within the LPF. This has moved significantly in the year from a net pension liability of £3.150 million at 31 July 2010. This change in financial position results from a number of changes in assumptions which are shown in table 3 below.

Table 3: LPF financial assumptions

	31 Jul 11 % p.a.	**31 Jul 10 % p.a.**
Pension increase rate	2.7	2.9
Salary increase rate	5.0	4.9
Expected return on assets	6.5	6.7
Discount rate	5.3	5.4

Source: LPF actuarial valuation for FRS 17 purposes at 31 July 2010 and 31 July 2011

18. With the exception of liabilities arising from early retirals, the College is unable to separately identify its share of assets and liabilities in the Scottish Teachers' Superannuation Scheme as the scheme is notionally funded. The College has applied the concession allowed by FRS 17 and has accounted for the scheme as a defined contribution scheme. This is consistent with the accounting treatment adopted in 2009/10.

Capital Income and Expenditure

19. In 2009 a review of the College's Estates Master Plan was produced which provided development options which were set out in seven discrete phases. The first stage was the preparation of a business case to support the development of the current quadrangle area into an Atrium. Due to the high level of financial risk associated with the project and the uncertainty of the impact of the economic recession on College funding the decision on the Atrium Phase 1 development was deferred.

20. The College's Senior Management Team took the opportunity of the delay to explore three alternative development options and at the Finance, Property and General Purposes Committee in May 2011 approval was given to proceed to full business case for the North Campus Development. This preferred option will develop the north of the campus and the main ground floor area, providing approximately 300 student study and social spaces, a new central reception desk, centralised student services and a library extension. The full business case was approved by the College Board of Management in September 2011. A firm of Project Managers have been appointed to manage the project, which has a total estimated value of £5 million including VAT. Construction work on the project will start in July 2012 and it is due to be completed in August 2013.

21. In January 2011 the College completed building the new Sport & Exercise Centre at a total cost of £1.47 million. This provides students with sporting and recreational opportunities as well as providing a gym and social and teaching space.

22. In partnership with City of Edinburgh Council, the College contributed £0.267 million towards the refurbishment of the previous Westburn Primary School in September 2010. These premises provide office, training and meeting space for the West Edinburgh Action team and Princes Trust project staff. The College has a lease for the use of these premises for a five year period. The capital contribution is being written-off over the lease period and the balance of £0.213 million remaining at 31 July 2011 is included in debtors. The related grant funding is being carried forward within deferred income in creditors.

Financial Position (Cont'd)

23. Capital expenditure of £2.372 million was added to fixed assets during the year, mainly in relation to the new sports centre (£1.348 million); refurbishment works (£0.168 million); landscaping and car park works (£0.055 million); the purchase of computer equipment (£0.647 million); and other equipment (£0.152 million). The fixed asset additions were funded by SFC capital grants and grant-in-aid.

Provisions

24. The College has a provision in its Balance Sheet at 31 July 2011 of £1.291 million (31/07/10 - £1.333 million) relating to pension costs from early retirements awarded to former teaching staff. The College's approach to the valuation of the provision has been to apply SFC actuarial tables on a consistent basis. The net interest applied was 2.0% in line with SFC guidance.

Systems of Internal Control

Control environment

25. 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

26. 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.

27. 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 Stevenson College Edinburgh 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.'

Corporate Governance Arrangements

28. The College has established corporate governance arrangements, with committees operating within a culture of risk management. The College corporate governance arrangements are described in its Statement of Corporate Governance and Internal Control contained within the financial statements.

29. 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. This report was discussed at the December 2010 Board meeting and it was concluded that the College complied with all report recommendations which were applicable to the further education sector. In September 2011 we completed an Audit Scotland Impact Assessment on how the College had responded to the report.

Corporate Governance Arrangements (Cont'd)

30. 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.

31. 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.

Corporate Governance Statement

32. 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.

33. 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.

34. The College's Statement of Corporate Governance and Internal Control confirms that the College has complied with the requirements of the June 2010 UK Corporate Governance Code, in so far as they apply to the further education sector, for the year to 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.

35. Our audit opinion on the statement is covered by our auditors' report and is unqualified in this respect.

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

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

37. The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations, Purchasing Policy and Procedures manual, Whistleblowing Policy, Fraud Policy and Response Plan and Risk Management Policy. These documents are reviewed and updated periodically.

HENDERSON LOGGIE

Outlook

2011/12

38. SFC funding to the College for 2011/12 is significantly lower than in previous years and this has been the subject of extensive Board discussion. The College's SFC allocation for 2011/12 identified main teach grant and fee waiver revenue funding of £15.769 million (2010/11: £17.330 million) and capital funding of £0.684 million (2010/11: £1.110 million), a reduction in total of £1,987 million or 10.8%.

39. The 2011 FFR to the SFC shows a budgeted 2011/12 surplus of £0.050 million (2010/11 £0.372 million). This is based on total budgeted income of £24.194 million (2010/11 £26.671 million) and expenditure of £24.144 million (2010/11 £26.299 million). The actual position for the two months to the end of September 2011 shows an operating surplus of £0.025 million. Expenditure continues to be controlled across all areas and payroll costs are forecast to be in line with budgeted figures for the period.

40. Measures have been taken to identify savings in 2011/12 which included establishment of the voluntary severance scheme.

Beyond 2011/12

41. 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.

42. 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.

Collaboration

43. In 2009/10 a collaboration project was initiated to look at ways that the three Edinburgh Colleges could work more closely together. Edinburgh's Telford College initially advised that they preferred closer partnership but did not wish to merge however Stevenson College Edinburgh and Jewel and Esk College made the decision to move towards a full merger from 1 August 2012. Following external consultation and clarification of the new Regional model, Edinburgh's Telford College has revised its position and is now involved in merger discussions to form a new Edinburgh College in Academic Session 2012/13.

44. In relation to the proposed Stevenson College / Jewel and Esk merger a consultant was employed to take the project forward and advisors appointed to assist with the process. An Executive Steering Group was also set up to assist with the project and there were meetings of the colleges' joint Boards to provide governance over the project. Senior management led work streams to consider how systems and processes could be merged or amended, with a view to ensuring that these were robust, effective and efficient. This work will now be progressed as part of the new Edinburgh College project.

45. Stevenson College Edinburgh continues to work in collaboration with other organisations to provide education and training which included new work in 2010/11 with City of Edinburgh Council Economic Development Department, JobCentre Plus and BAA. The College is also working closely with other Edinburgh & Lothians Colleges regarding curriculum and student services, and there may be opportunities for other shared service collaboration in the future.

Introduction

46. 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.

47. 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 29.

Strategic Plan

48. The College's latest Strategic Plan, covering the period 2009-14 was approved by the Board of Management at its meeting in September 2009. There are four strategic aims which are supported by strategic objectives, strategies and key performance indicators (KPIs).

Risk Management

49. The College has a Risk Management Policy which was approved in December 2010. This sets out the roles and responsibilities of staff, and requirements for risk assessments, risk registers, monitoring and reporting. There is a Risk Register which is categorised by function and is updated to reflect on-going assessment of the strategic and operational risks faced by the College with control responsibility assigned to appropriate officers. An annual Risk Management Report, outlining the main features of the College's risk management activities is prepared for the Board of Management. The Audit Committee also reviews the Risk Register on a regular basis and has increased its involvement with risk management during the year.

50. There are separate risk registers produced for each major capital project and these are regularly updated. The risk registers, along with the finance risks are presented regularly to the Finance, Property and General Purposes Committee for its review.

Performance Management

51. The Board of Management and its committees regularly consider the College's performance in implementing its strategic objectives. The Principal presents a report to each Board meeting outlining activities and achievement.

52. The College uses key performance indicators (KPIs) and benchmarking to monitor performance. Operational plans are also linked into corporate objectives set out in the Strategic Plan. There is reporting to the Board setting out performance against strategic objectives.

53. Annually, accounting ratios and other information is brought to the attention of the Finance, Property and General Purposes Committee.

54. In October 2009 the SFC issued guidance on developing a sustainability framework under cover of SFC/31/2009. The Finance, Property and General Purposes Committee discussed a draft of the Institutional Sustainability Framework at its meeting on 1 March 2010 and this was subsequently approved by the Board and submitted to the SFC.

55. In March 2011 the College came to agreement with union representatives that the College would not force any compulsory redundancies. Management consider that this agreement has had a positive impact on staff relations, morale and productivity.

Financial Management

56. Monthly management accounts are prepared and reviewed by the Finance Team and the Head of Finance. Financial Monitoring Statements are presented at each meeting of the College's Finance, Property and General Purposes Committee for consideration and summary information is also presented to the full Board. Our review confirms that appropriate and timely financial reporting is made at operational and strategic levels.

57. The College's budget for 2011/12 was approved by the Board of Management at its meeting in June 2011. The budget includes reduced SFC income as a result of the known SFC funding cuts, along with reduced international income as a result of fewer international students because of tighter rules introduced by the UK Border Agency.

58. There is an ongoing material risk to the FE sector in relation to how the global economy will perform which could affect the College's commercial and international income as well as the size of future SFC funding cuts. The College is aware of this risk through its risk management process.

Value for Money (VFM)

59. The College has a VFM Strategy which sets out the scope, responsibilities, concept and means of measuring the achievement of VFM.

60. The College considers best value in the context of its wider planning and operational procedures and business processes. VFM is also obtained through review of financial information, use of APUC (Advanced Procurement for Universities and Colleges), the employment of a Procurement Officer and budgetary controls.

61. Aspects of VFM are considered by internal audit in all of their reviews. In addition, internal audit carried out a specific VFM review on the Department of Business Administration and Languages during 2010/11. The internal auditors considered that the systems and procedures used by the College were 'strong' in this area.

Audit Opinion

63. On 16 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

64. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 4 the three key elements of the audit process.

Table 4: Key elements of the audit process

Completeness of draft financial statements A set of draft financial statements was received on 27 September 2011 before the start of the final audit visit on 3 October 2011, although an updated OFR was not available until 7 November 2011 and certain figures were outstanding in the first draft. The financial statements 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 was provided during the audit and these 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

65. In table 5 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process. One further trivial adjustment was not processed. Explanations for material adjustments are given at paragraph 66 and 67 below.

Table 5: Audit adjustments – impact on the financial statements

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
Trade debtors			11	
Trade creditors				11
Reallocation of debit balances in creditors				
Trade debtors			6	
Trade creditors				6
Reallocation of credit balances in debtors				
Trade debtors				319
Trade creditors			319	
Refer paragraph 66 below				
Accrued Income			204	
SFC Grants		172		
Student support funds				32
Accrual of further economic downturn funds				
Other income		6		
VAT creditor			6	
Correction of VAT coding error				
Expenditure		14		
Computer Equipment - Cost			14	
Computer Equipment – Depreciation	4			
Computer Equipment - Accum Depn				4
Deferred Capital Grants - capitalisation				14
Deferred income	14			
Deferred Capital Grants – release			4	
SFC deferred grant income release		4		
Adjustment re capital items originally treated as revenue				
Trade debtors				47
Income	9			
Other creditors			38	
Provision for post year-end credit notes				
Bursaries and Hardship funds creditors			35	
Expenditure		35		
Net effect of Student Support Fund adjustments required				
Carried forward	27	231	637	433

Audit and Accounting Adjustments and Confirmation (Cont'd)

Table 5: Audit adjustments – impact on the financial statements (Cont'd)

Brought forward	27	231	637	433
Computer Equipment - Cost				201
Computer Equipment – Accum Depn			201	
Fully written down IT equipment disposed of during the year				
Deferred Income (< 1 year)				54
Deferred Income (>1 year)				160
Deferred Capital Grants			214	
Refer paragraph 67 below				
	27	231	1,052	848
	=====	=====	=====	=====

Description of Material Audit Adjustments

66. During the audit it was noted that an invoice had been raised for income spanning 2010/11 and 2011/12 totalling £0.638 million. To ensure that income relating to 2011/12 (£0.319 million) was deferred a credit balance was included within creditors, however this does not meet the accounting requirements for recognising a liability. As a result the credit balance has been netted off against the original debtor. This had no impact on the reported surplus for the year.

67. It was also noted that funding for the use of the Westburn primary school lease had been included within deferred capital grants when the most appropriate accounting treatment was to include within deferred income. An adjustment was made to correct this. The deferred income will be used to fund the lease costs over the remaining life of the lease.

Confirmations and Representations

68. We confirm that as at 8 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.

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