

# **KILMARNOCK** **COLLEGE**

**ANNUAL REPORT  
TO THE BOARD OF MANAGEMENT AND THE AUDITOR  
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR  
THE YEAR ENDED 31 JULY 2007**

**FEBRUARY 2008**

<b>Date of commencement of Final Visit</b>	<b>8 October 2007</b>
<b>Date of Draft Report to College</b>	<b>31 October 2007</b>
<b>Date of Discussion re Draft Report</b>	<b>1 November 2007</b>
<b>Date of College Responses</b>	<b>13 November 2007</b>
<b>Date of Presentation of Report</b>	<b>14 February 2008</b>

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## **GLOSSARY OF TERMS**

Annual Report	-	Report
Kilmarnock College	-	The College
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

## **1. INTRODUCTION**

- 1.1 Wylie & Bisset were appointed as the External Auditors of Kilmarnock College with effect from 1 August 2006 for a period of 5 years until 31 July 2011.
- 1.2 The Annual Report has been prepared following our audit of the financial statements of Kilmarnock College for the year ended 31 July 2007.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in March 2007.
- 1.4 Paragraph 24 of the 'Code' states that the auditor's objectives are to:
  - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
  - Review and report on the College's corporate governance arrangements as they relate to:
    - The College's review of its systems of internal control
    - The prevention and detection of fraud and irregularity
    - Standards of conduct, and the prevention and detection of corruption
    - Its financial position, and
  - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 We are aware of an investigation by Chiene & Tait, internal auditors, into the relationship between the College and associated bodies. We understand the focus of the investigation is to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the financial statements of the College for the year ended 31 July 2007, on the basis of limitation of scope.
- 1.8 Chiene & Tait are required to undertake an audit of the College's SUMs certificate as submitted to the SFC. From review of the final report and from

discussion with Chiene & Tait, they have been unable to form a conclusion on their work and have qualified their audit report on the basis of uncertainty. As a result we are unable to rely or conclude on the work of the internal auditors in this area.

- 1.9 Chiene & Tait's conclusion on the SUMs audit, included in their Annual Internal Audit Report, is as follows:  
"We have been unable to reach a satisfactory conclusion that the processes and procedures in place at the College are sufficient to properly identify non-fundable programmes or students and cause them to be properly excluded from the annual SUMs claims. The extent of the errors identified leads us to conclude that, whilst we do not necessarily believe the SUMs claim contains a material error, the quality of processes and procedures introduces material uncertainty"
- 1.10 The Annual Report covers the following areas as set out in the Code:
- a) Internal Controls and audit approach
  - b) Internal Audit
  - c) Corporate Governance
  - d) Value for Money
  - e) GMAP visits
  - f) Prevention and detection of fraud and irregularities
  - g) Management letter – 2007
  - h) Management letter – 2006
- 1.11 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.12 Our audit work was designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.13 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.14 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.15 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

*Wylie + Bisset*

Wylie & Bisset

## **2. INTERNAL CONTROLS AND AUDIT APPROACH**

2.1 In the course of our audit we planned to review the key elements of the College's systems of internal financial controls including the following areas;

- a) The College's medium and short term planning processes including budgets;
- b) The College's review of key performance indicators, financial and management accounts;
- c) The College's controls over income and expenditure;
- d) The College's financial controls and procedures;
- e) The input from the Audit Committee and the Finance Committee;
- f) The College's internal audit service.

2.2 In planning our audit work we have taken into account the following:

- a) The Code of Audit Practice issued by Audit Scotland;
- b) The Code of Audit Practice issued by SFC;
- c) Guidance issued by Audit Scotland;
- d) Guidance issued by SFC;
- e) The College's internal control procedures;
- f) The College's Corporate Governance procedures;
- g) The College's approach to Value for Money;
- h) The financial memorandum between SFC and the College.

2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:

- a) Reviewing previous financial statements;
- b) Reviewing internal audit plans and reports;
- c) Discussions with senior management and staff at the College;
- d) Completing appropriate audit programmes;
- e) Carrying out analytical review procedures;
- f) Carrying out substantive and compliance audit tests on a judgemental basis;
- g) Reviewing the minutes of the principal College committees.

2.4 During the course of our external audit work a number of weaknesses in the College's internal financial controls have come to our attention. These weaknesses are raised in our management letter points in Sections 9 & 10. Further weaknesses have been raised by the internal auditors in their annual report.

2.5 The audit recommendations are included in the appropriate sections of this report. The recommendations have been graded as High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

### 3. FINANCIAL STATEMENTS

- 3.1 The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.
- 3.2 The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

#### AUDIT REPORT

- 3.3 We are aware of an investigation by Chiene & Tait, internal auditors, into the relationship between the College and associated bodies. We understand the focus of the investigation is to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the financial statements of the College for the year ended 31 July 2007, on the basis of limitation of scope.

#### FINANCIAL PERFORMANCE

- 3.4 The income and expenditure account shows an operating surplus for the year of £322,000. This is compared to a previous year surplus of £216,000.
- 3.5 The deficit brought forward on the income and expenditure reserve at 1 August 2006 was £(240,000). After the surplus for the year of £322,000 and the transfer from revaluation reserve is taken into account the surplus on the College's income and expenditure reserve at 31 July 2007 is £267,000.
- 3.6 In July 2007 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2005/06. The indicators show that in 2005/06 the College was generally operating above the sector average, particularly in regard to:
- ◆ **Operating surplus as % of total income was 1.7% compared with a sector average of 0.8%;**
  - ◆ **Historic cost surplus as % of total income was 3.0% compared with a sector average of 1.9%;**
  - ◆ **Interest cover was 4.7 compared to a sector average of 3.0.**



- 3.7 The College is to continue to keep the inter-college comparisons produced by SFC under review.

#### **SUBMISSION OF ACCOUNTS**

- 3.8 The accounts were submitted for audit on **8 October 2007**, in line with the agreed timetable. The accounts submitted for audit were substantially complete. Working papers provided have generally been of a high standard and queries arising from the audit have all been resolved. Key staff were readily available for consultation throughout the audit process. Our audit work is complete and we have reported accordingly.

#### **ISSUES ARISING**

- 3.9 We are aware of an investigation by Chiene & Tait, internal auditors, into the relationship between the College and associated bodies. We understand the focus of the investigation is to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the financial statements of the College for the year ended 31 July 2007, on the basis of limitation of scope.
- 3.10 Chiene & Tait are required to undertake an audit of the College's SUMs certificate as submitted to the SFC. From review of the final report and from discussion with Chiene & Tait, they have been unable to form a conclusion on their work and have qualified their audit report on the basis of uncertainty. As a result we are unable to rely or conclude on the work of the internal auditors in this area.
- 3.11 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Corporate Services. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit subject to the qualification noted at 3.9.
- 3.12 During our audit, land held by the College between Ballot Road and Bank Street Irvine was sold to the Lovell Partnership LLP for a consideration of £1,875,000. At 31 July 2007 the carrying value of this asset was £2,160,000. From discussion with the Director of Corporate Services, it has been agreed to recognise the impairment loss in line with the requirements of the FE SORP and Financial Reporting Standard (FRS) 11. The impairment loss amounts to £285,000 and has been offset against the existing revaluation reserve relating to the Irvine property.
- 3.13 During our audit it was noted that disclosure of related party transactions in the financial statements was not in line with the FE SORP and FRS 8. The matter has been discussed with the Director of Corporate Services who has agreed to update disclosures as appropriate.

## 4. INTERNAL AUDIT

### **Objective and Approach**

- 4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2 The College's internal auditors are Chiene & Tait.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2007 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2007 the following internal audit reports were issued:
- a) SUMS and Fee Waiver
  - b) Disability Discrimination
  - c) Tuition Fees
  - d) Faculty Review
  - e) Estates Strategy
  - f) Planned and Cyclical Maintenance
  - g) Disciplinary Procedures
  - h) Follow up
- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment.
- 4.6 We are aware of an investigation by Chiene & Tait, internal auditors, into the relationship between the College and associated bodies. We understand the focus of the investigation is to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the financial statements of the College for the year ended 31 July 2007, on the basis of limitation of scope.
- 4.7 The Annual Report from the College's internal auditors gave an overall opinion that management has limited assurance that the internal controls and governance frameworks in operation are sufficient to ensure the efficient and effective operation of the organisation. Review of individual reports at 4.4 show an opinion of limited assurance in the areas of SUMS and Fee Waiver, Planned and Cyclical Maintenance and Disciplinary Procedures. All other areas were given the level of substantial assurance.

- 4.8 Chiene & Tait are required to undertake an audit of the College's SUMs certificate as submitted to the SFC. From review of the final report and from discussion with Chiene & Tait, they have been unable to form a conclusion on their work and have qualified their audit report on the basis of uncertainty. As a result we are unable to rely or conclude on the work of the internal auditors in this area.
- 4.9 Chiene & Tait's conclusion on the SUMs audit, included in their Annual Internal Report, is as follows:  
"We have been unable to reach a satisfactory conclusion that the processes and procedures in place at the College are sufficient to properly identify non-fundable programmes or students and cause them to be properly excluded from the annual SUMs claims. The extent of the errors identified leads us to conclude that, whilst we do not necessarily believe the SUMs claim contains a material error, the quality of processes and procedures introduces material uncertainty"
- 4.10 In compiling our recommendations for improvements included at section 9, we have not repeated matters already highlighted by internal audit in their available reports.

### **Opinion**

- 4.11 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with the Internal Audit providers. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit.

## **5. CORPORATE GOVERNANCE**

### **Objective and Approach**

- 5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was planned using a bespoke checklist. We also reviewed the following:
- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2007;
  - b) The College's Corporate Governance strategy;
  - c) The minutes of meetings of key College committees issued during the year.

### **Opinion**

- 5.2 A review and assessment of the College's Corporate Governance arrangements was carried out by BDO Stoy Hayward, as part of their external audit for the year ended 31 July 2006. BDO identified three matters in relation to Corporate Governance during their audit (summarised in section 10 of this report). Based on our review, two of the recommendations made by BDO with regard to these matters do not appear to have been followed and, as a result, those matters are reflected in our management letter for the year ended 31 July 2007 (at section 9 of this report).
- 5.3 Based on our external audit work and discussion with current management at the College, we have made a number of recommendations in our Management Letter regarding the College's Corporate Governance procedures and arrangements in place covering standards of conduct etc.
- 5.4 From work currently undertaken by Chiene & Tait, internal auditors, there are clear Governance issues which suggest a history of weak management at the College. We are aware that various changes have taken place during the last six months of the year and, from discussion with current management, progress is being made to improve Corporate Governance procedures and arrangements.

### **Recommendations**

- 5.5 Our recommendations, subject to the results of the investigation noted at paragraph 1.7, are noted at Section 9 to this report.

## **6. VALUE FOR MONEY**

### **Objective and Approach**

- 6.1 We have reviewed the College's Value for Money systems including the following:
- a) The College's strategy in this area;
  - b) VFM studies carried out by the College's internal auditors.

### **Opinion**

- 6.2 Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources subject to the points noted below.

### **Recommendations**

- 6.3 There were no recommendations in 2006 and no further recommendations in this area this year.

## **7. GMAP VISITS**

- 7.1. From discussion with the Director of Corporate Services, the College has not had a GMAP visit during the year ended 31 July 2007.
- 7.2. We recommend that any reports from future GMAP visits should be forwarded to us so that they can be reviewed as part of our audit work.

## **8. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES**

### **Objective and Approach**

- 8.1. The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures.
- 8.2. An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a bespoke checklist.
- 8.3. In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
- a) The monitoring and compliance with financial procedures;
  - b) The College's strategy to prevent and detect fraud and other irregularities;
  - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 8.4. One area of concern was found during normal audit procedures. The College has Anti Fraud & Corruption and Whistle blowing policies dated 9 August 2006. Based on our review neither policy appears to be adequately communicated to staff and neither policy can currently be accessed on the College's intranet.
- 8.5. We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

### **Opinion**

- 8.6. At present we are aware of an investigation by Chiene & Tait, internal auditors, into the relationship between the College and associated bodies. We understand the focus of the investigation is to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the financial statements of the College for the year ended 31 July 2007, on the basis of limitation of scope.

### **Recommendations**

- 8.7. It is recommended that the College implements appropriate channels for staff to raise issues regarding the running of the College or the activities of colleagues within the College. This is a high priority recommendation.

- 8.8 The recommendations from the investigation by Chiene & Tait should be implemented as a high priority as soon as the report is issued in its final form.



## MANAGEMENT LETTER – 2007

9.1 The management letter for the year ended 31 July 2007 was issued by Wylie & Bisset following the audit for the year.

9.2 The following recommendations are graded as “High” priority in this area.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
a. The College has Anti Fraud & Corruption and Whistle blowing policies dated 9/8/06. Based on our review, neither policy appears to be adequately communicated to staff and neither policy can currently be accessed on the College’s intranet.	It is recommended that the College implements appropriate channels for staff to raise issues regarding the running of the College or the activities of colleagues within the College.	<i>High</i>	<i>The policy has been communicated to all staff. The policy is now easily accessible on the new and improved College intranet</i>	<i>Actioned</i>
b. During the year ended 31 July 2007 the College did not appear to have a formal policy for Board training.	It is recommended that all Board members receive regular training and information to allow them to stay up to date with developments in the Sector and in the College itself.	<i>High</i>	<i>The Board of Management Chairman is in the process of producing a formal policy for Board members training</i>	<i>Chairman / March 2008</i>
c. From a review of the Register of Interests, one member of the Board of Management had not submitted their disclosure forms for at least 12 months as at 31 July 2007. In addition, a member of senior management and member of the Board of Management did not disclose relationships with related undertakings. <i>(Repeated from 2006)</i>	It is recommended that the Secretary to the Board of Management remind board members of their responsibility to disclose any interests on a regular basis.	<i>High</i>	<i>The Chairman of the Board of Management to instruct the Secretary to the Board to advise members of their responsibility</i>	<i>Chairman / March 2008</i>
d. The College Financial Regulations have not been updated since 2002. <i>(Repeated from 2006)</i>	It is recommended that the Financial Regulations be updated timeously to ensure that the College policies and procedures are being adhered to in relation to the financial statements in place.	<i>High</i>	<i>College Financial Regulations have been reviewed and approved at the Finance meeting of 11<sup>th</sup> December 2007</i>	<i>Actioned</i>

<p>e. The Audit Committee does not contain a member who has a background in finance, accountancy or risk management.</p>	<p>It is recommended that the College take the appropriate action to appoint an appropriate individual to the Audit Committee.</p>	<p><i>Medium</i></p>	<p><i>In the short term the Chairman of Finance Committee is attending all Audit meetings. An advert has been placed to attract new members to the Board of Management. With a view to filling the gap in the Audit Committee.</i></p>	<p><i>Audit Chairman / March 2008</i></p>
<p>f. From review of Corporate Governance documents in place during the year, there does not appear to be a clear and documented procedure for regular review and updating.</p>	<p>It is recommended that all College Corporate Governance, policy and procedure documents are regularly reviewed and updated to ensure they are complete and adequate.</p>	<p><i>Medium</i></p>	<p><i>A procedure is now in place. All policies were reviewed and updated where appropriate in November 2007. Policies will be reviewed annually</i></p>	<p><i>Quality Manager/ Actioned</i></p>
<p>g. During the audit process we were issued with the College Corporate Governance document (dated October 2007) which had not been approved by the Board of Management.</p>	<p>All documents should be passed before the Board and approved prior to issue</p>	<p><i>Medium</i></p>	<p><i>Auditor was advised that this was a draft document which would be passed to the Board of Management for approval at next Board meeting.</i></p>	<p><i>Secretary to the Board /March 2008</i></p>
<p>h. Chiene &amp; Tait are currently carrying out an investigation into the relationship between the College and associated bodies.</p>	<p>We recommend that the recommendations from the investigation are implemented as a high priority once the report has been finalised.</p>	<p><i>High</i></p>		

## 10. MANAGEMENT LETTER – 2006 and prior

10.1 The recommendations following the audit for the year ended 31 July 2006 by BDO Stoy Hayward are detailed below.

Background	Recommendations		College response	Responsibility /Timescale
a. The review of supplier payments identified that a payment had been made to an incorrect supplier.	It was recommended that the College revisit their authorisation and payments procedures to ensure that this does not occur in the future.		'This was a keying error and more care will be taken in the future.'	
b. Against recommended practice as contained within the "Guide for College Board Members, 2006", produced for the Association of Scottish Colleges (ASC) and supported and developed by the Scottish Funding Council, there had been no self assessment procedures carried out in the year to 31 July 2006. <i>(Corporate Governance)</i>	It was recommended that the College review the above guidance and supports a system of self assessment on a periodic basis.		'The Board of Management agreed that as there were a number of new Board Members during 2005/06 it would not be beneficial to carry this out. Agreed that Board members self evaluation would be carried out during 2006/07.'	
c. The College Financial Regulations had not been updated since 2002. <i>(Corporate Governance)</i>	It was recommended that the Financial Regulations be updated timeously to ensure that the College policies and procedures are being adhered to in relation to the financial statements in place.		'Financial Regulations will be updated during January 2007.'	
d. From a review of the Register of Interests, four members of the Board of Management had not updated their disclosure forms for at least 12 months as at 31 July 2006. In addition, another member of the Board of Management had not dated his disclosure form and a senior member of staff with significant financial interest had not completed a disclosure form. <i>(Corporate Governance)</i>	It was recommended that the Secretary to the Board of Management remind board members of their responsibility to disclose any interests on a regular basis.		'This has been actioned by the Secretary to the Board.'	

## **11. EMERGING ISSUES**

### **Charitable Status**

As a result of the pilot review of the charitable status of John Wheatley College in Glasgow completed in May 2007, the charitable status of the College is in doubt. The Office of the Scottish Charity Regulator, OSCR, concluded that John Wheatley College did not meet the charity test set out in the Charity & Trustee Investment (Scotland) Act 2005 because its constitution allows Scottish Ministers to exert control over the College. In addition, the constitution also permitted distribution of charitable funds for non-charitable purposes, which contravenes the Act. OSCR have given John Wheatley College two years to address the situation.

In reality this is not a situation that John Wheatley College can rectify. The solution must come from the Scottish Government. Our current understanding is that Ministers will exempt Scotland's Colleges from the relevant part of the charity test. The legislation already contains a provision by which they can do this.

In the event that the situation is not resolved all Colleges would potentially lose their charitable status, which could result in the loss of VAT exemptions and payment of Corporation tax on surpluses. Based on current information the likelihood of this is extremely remote and accordingly no reference has been made to it in the financial statements.

### **Pension and FRS 17**

Retirement benefits to employees of the College are provided by the Teachers' Superannuation Scheme (Scotland) (STSS) and the Local Government Superannuation Scheme (LGSS). These are defined benefit schemes. Due to the multiemployer nature of these schemes it is not been possible to identify the shares of assets and liabilities applicable to the College, hence the pension cost in the financial statements has been accounted for on a defined contribution basis as permitted by FRS 17.

It is likely that in a future accounting period, these schemes will have to be disclosed as defined benefit schemes which will require incorporation of a related pension scheme asset or liability in the balance sheet of the College.

### **Statement of Recommended Practice (SORP)**

The Statement of Recommended Practice on Accounting in Higher and Further Education Institutions has been updated at July 2007 for accounting periods ending 31 July 2008 onward.

## APPENDIX A

### STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

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

The College's External Auditors have qualified the financial statements for the twelve months ended 31 July 2007 on the basis of limitation of evidence and have issued a disclaimer of opinion on the view given by the financial statements.

As a result of governance and communication weaknesses identified by the College and the College's internal auditors the Board of Management structure has been reviewed. The Board of Management has been strengthened. The Board of Management considers that each of its non-executive members is independent of College management and free from any business or other relationship which could materially interfere with the exercise of independent judgement.

The Board of Management now works closely with College senior staff and there are stronger communication links between the Board of Management and staff. College policies are communicated to College staff on a new and improved College intranet.

The Board of Management are working with the Senior Management Team of the College to address the weaknesses identified by the College's internal and external auditors (refer to Corporate Governance Statement).

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board of Management, subject to areas noted, has ensured that:

- Suitable accounting policies are selected and applied consistently;
- Judgements and estimates are made that are reasonable and prudent;
- Applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management, subject to areas noted, has taken reasonable steps to:

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

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

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

However, any system of internal financial control is designed to manage rather than eliminate risks of failure to achieve operational objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In so far as the Board of Management are aware:

- (a) there is no relevant audit information of which the College's auditors are unaware; and
- (b) the Board have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

.....  
(Date)

## **APPENDIX B**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF KILMARNOCK COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND**

We have audited the financial statements of Kilmarnock College for the year ended 31 July 2007 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of the Board of Management, Accountable Officer and Auditor**

The Board of Management and Accountable Officer are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued there under by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Accountable Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We also report whether in all material respects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1st January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. However, the evidence available to us was limited and as a result of this we



have been unable to obtain sufficient appropriate audit evidence concerning a number of areas. Because of the significance of these items we have been unable to express an opinion on the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion: disclaimer on view given by the financial statements**

**Financial statements**

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether:

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2007 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

**Regularity**

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether:

- the expenditure and income shown in the financial statements was incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1st January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

**Wylie & Bisset**

Chartered Accountants and Registered Auditors  
168 Bath Street  
Glasgow G2 4TP

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**Date**

**Wylie & Bisset**  
CHARTERED ACCOUNTANTS

*Kilmarnock College*  
*Annual Report to the Board of Management and Auditor General for Scotland*  
*February 2008*