

The North Highland College

**Annual Report for the Year Ended 31 July 2007
To the Board of Management and the Auditor General for Scotland**

Tenon audit

**10 Ardross Street
Inverness
IV3 5NS**

Issued 25 January 2008

CONTENTS

	Page
1. Executive Summary	1
2. Introduction	2
3. Financial Review	3
4. Financial Statements	6
5. Corporate Governance	13
6. Action Plan	16
7. Appendices	19 - 25

This report is part of a continuing dialogue between the College and ourselves and is therefore not intended to cover every matter discussed during the course of the audit. For this reason, the report is intended for the sole use of the College, and of Audit Scotland. We do not accept responsibility to any officer or member of the College acting in an individual capacity, and do not accept responsibility for any reliance that third parties may place on the report.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the College accounts as a whole. An audit does not examine every operating activity and accounting procedure in the College, nor does it provide a substitute for management's responsibility to maintain adequate controls over the College's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the College's systems and working practices, or of all improvements that could be made.

1 EXECUTIVE SUMMARY

1.1 Financial Review

- The college achieved a surplus of £442,000 (previous year £21,000)
- The college continues to maintain a healthy overall balance sheet with net assets of £7.2m; (previous year £6.1m)
- The budget for 2007-08 predicts a surplus of £20,000.

1.2 Financial statements

- We have issued an unqualified audit opinion on the accounts of The North Highland College for the year ended 31 July 2007. The principal adjustments from the draft accounts related to a reduction in deferred income of £0.222m and a credit in respect of past pension charges of £0.183m.

1.3 Corporate Governance

In our first year of appointment we have carried out an overall review of Corporate Governance arrangements, and have no recommendations.

1.4 Action Plan

We make recommendations relating to:

- timely production of accounts for audit
- improvements to fixed asset register
- analysis of revaluation reserve

2 INTRODUCTION

This is the first year of our five-year audit appointment. The purpose of this report is to give a summary of our audit activity. It includes details of the more significant matters arising from the audit, sets out the respective responsibilities of management and external audit, and reports what action has been taken or is necessary by members or executive management.

- 2.1** *Our audit of The North Highland College for the year ended 31 July 2007 has been carried out in accordance with statutory requirements and follows the practices prescribed by the Code of Audit Practice and guidance issued by the Auditing Practices Board (APB). The Code of Audit Practice sets out fully the responsibilities of the College and its officers in relation to financial probity, control, preparation of accounts and the achievement of value for money in the provision of services. We are required under the Code to give an independent assessment of how the College has discharged its stewardship of public funds. A summary of our responsibilities is contained in Appendix 2.*
- 2.2** *We have summarised the Key Issues arising from our audit in Section One. In providing the summary, it can be difficult to strike a balance between recognising good performance when achieved and highlighting scope for improvement. The items referred to represent Key Issues for management attention and should not be taken out of the context of the remainder of this report, or the detailed reports covering individual reviews.*
- 2.3** We invite The North Highland College to receive this report and consider the recommendations we have made.
- 2.4** We would be grateful to receive the College's response to the issues we have raised.

3 FINANCIAL REVIEW

3.1 Introduction

The purpose of the financial review is to consider the general financial standing of The North Highland College by looking back at financial performance in 2006/07 and to look ahead to the future financial position. Our review is aimed at helping College members understand the financial position of The North Highland College at a particular point in time. It should not be regarded as definitive or comprehensive and the College should not seek to rely on this summary in isolation.

3.2 Financial Performance 2006-07

The financial statements reflect a surplus for the year, of £442,000 (previous year £21,000). This compares favourably to the budget of £44,000 surplus. The main movements are summarised below:

	Budget	Actual	Variance
	£000	£000	£000
SFC Grants	5,785	6,005	220
UHI Grants	1,256	1,710	454
Other Grant Income	1,940	1,844	(96)
Staff costs	6,397	6,078	319
Other operating expenses	3,744	4,203	(459)

Included in the favourable Staff costs variance was a credit transfer of £183,000 from the Superannuation Fund in respect of past service costs which has been identified by an Independent Actuary. Once this is accounted for the favourable staff variance was £136,000.

The college continues to maintain a positive overall balance sheet position, with net assets of £7.2m including cash of £0.97m.

3.3 Reserves

The college continues to build up its general reserves to £1.3m, (previous year - £1.1m). This includes a designated reserve of £0.22m earmarked for the upgrade and expansion of the college estate, part of the longer term strategic plan.

3.4 Financial Plan 2007-08

The forecast for 2007/08 predicts a small surplus of £20,000.

3.5 Capital expenditure plans

The North Highland College's operational plan for 2007-08 predicts capital expenditure of £1.7m in the period to 31 July 2008, principally on the purchase of two properties. One of these is presently leased, but the other will require further £1.9m of improvements which is likely to straddle the next two financial years.

3.6 Recurrent grant allocation

The Scottish Funding Council (SFC) has confirmed recurrent Grant income of £4.7m and Fee waiver initial grant of £0.5m for the year to 31 July 2008.

4 FINANCIAL STATEMENTS

4.1 *The respective responsibilities of the College and Tenon Audit are summarised in Appendix 2. The purpose of this section of our report is to highlight and explain our formal opinion on the financial statements, and to comment on the main issues arising from our audit of the financial statements.*

4.2 Audit opinion

We have issued an unqualified audit opinion on the accounts of The North Highland College for the year ended 31 July 2007. A copy of our audit opinion is attached to this report at Appendix 1.

4.3 Independence

In accordance with auditing standards we can confirm that any relationships that may bear on the firm's independence and the objectivity of the audit engagement director and audit staff have been identified and assessed at the planning stage of our audit.

No independence issues have been identified that Board Members need to be aware of.

We did carry out the audit of the student support funds for the college at a cost of £1650, plus VAT.

4.4 Timetable and procedures

The College is required to submit audited accounts to the Scottish Funding Council by (SFC) by 31 December following the year end.

In order to achieve this deadline the accounts preparation procedures require good planning, commitment, and resources.

We discussed plans for the preparation and audit of the accounts initially with the Principal in March 2007. At that time the post of Director of Finance was vacant, the previous Director having left in February. Roddy Ferrier was appointed Director of Finance in June 2007 and we discussed plans with him in a series of telephone conversations and emails commencing shortly after his appointment. A date of 22 October was agreed for the final audit visit. Following further discussions and receipt of draft accounts on the 19 October, this visit was delayed to the 29 October. It soon became apparent that there were areas of the accounts which did not have finalised supporting working papers to the standard expected. It was agreed that further work was required to finalise the accounts and a further visit would be required. On 14 November we were asked to complete the audit of Student Support funds, (which had to be sent to the Scottish Funding Council by 31 December 2007) Although this late notification put further pressure on our resources we were able to complete this by the deadline.

On 27 November Roddy advised that he planned to have revised accounts by 3 December – we again revised our work plans and freed up staff for a visit on 10 December, which was to include the work on the Student Support Funds. Although revised accounts, in spreadsheet format were received on 3 December, full statutory accounts were not received until 6 December. The finance committee were due to meet to consider the accounts and our draft report on 12 December to make recommendations to the full board on 17 December. It became clear that we would not complete our audit and our draft report by 17 December, and as a consequence would not achieve the overall 31 December deadline. Some significant amendments were agreed to the accounts during our second audit visit, and revised accounts were received on 17 December, for discussion at the Board meeting later that day. After an initial review, it became apparent that there remained some presentational issues to be addressed in the accounts as presented. It was agreed to postpone approval of the accounts until January when our draft audit report would be available and proper consideration could be given to the final accounts.

As can be seen from the table at 4.7 there were a number of adjustments agreed to be made to the draft financial statements produced for our audit on 19 October, before final drafts were received on 17 December. This was the first year of our five year appointment; the college was without a Director of Finance for several months during the year, and the new Director therefore had no formal handover and was faced with catching up with a backlog, as well as preparing college accounts for the first time. Inevitably with all of these changes there was an impact on the accounts production and audit timetable. It is our aim, together with the Principal and the Director of Finance, to ensure that, in future, adjustments to draft accounts are kept to a minimum. Although we did issue a schedule of working papers we required in advance of the audit for this year, we intend, in consultation with the Director of Finance, to revise this to make it more specific to the North Highland College. Our intention would be that this is confirmed as being complete before we begin our audit, ensuring a more efficient audit.

4.5 Audit approach and materiality

Our audit planning was carried out taking account of the issues highlighted through a planning meeting with you, and our knowledge and understanding of the business.

In our planning, we have taken account of the reliance that can be placed on the work of the internal auditors, the regulation within the sector, and the results of our own risk assessment made in accordance with the guidance set by International Standards on Auditing (UK and Ireland).

- The level of materiality for making adjustments to the financial statements, as set out in the detailed planning memorandum, was calculated based on total income and the value of general reserves and was assessed at £140,000. This was revised to £90,000 on receipt of the draft accounts.

We are required to notify you of any potential adjustments identified during the course of our audit work unless they are clearly trifling. For the purposes of this report we have taken clearly trifling as being less than £900.

The following significant matters were discussed with management during the course of the audit. This includes the audit outcome of the key risks identified within our audit planning memorandum dated 2007.

4.6 Accounting policies and practices

In preparing the financial statements of the College, Members are required under FRS18 to review the College's accounting policies on an annual basis to ensure they remain appropriate to the College's circumstances and are being properly applied.

- We have reviewed the accounting policies and practices selected by the College and are satisfied that the College operates acceptable accounting policies and practices for the purpose of determining whether the financial statements show a true and fair view. A number of amendments were made to accounting policies and disclosures following our review of draft accounts.

Section 2 of this report summarises the main accounting issues that we have discussed with management and records the adjustments that have been made to the draft accounts as a result of matters arising during the course of the audit. This section also summarises the errors identified during the course of the audit which remain unadjusted.

We draw the Members' attention to the following matters in particular:

- **Asset registers**

Asset registers comprise spreadsheets of expenditure incurred over the years. While this provides a back up for the figures in the accounts it is more of a historic record than a management tool for the stewardship and maintenance of assets. It also includes a wide range of useful lives for properties, and in some cases, parts of properties, which in practice should have the same useful life. It was observed during the audit that a number of items are fully depreciated, and there is no record to say whether they are still in use or not:

Category	No. of items	Gross Cost £000	Net Book Value £000	No. fully written down
Land and Buildings	31	9,836	7,106	5
Plant and Equipment	100	1,295	176	81
Computer Equipment	100	970	31	93
Motor Vehicles	6	89	29	2
Totals	237	12,190	7,342	181

In 2006 the college commissioned an estates survey which is included in the Estates Strategy document 2006-2011. This provides a valuable analysis of the estate and its condition. It would be a good opportunity to revise the asset register to ensure that scrapped assets are no longer included, and to align the property register with the estate survey.

- **Revaluation Reserve**

The revaluation reserve of £2.5m is not analysed to enable it to be attributed to specific properties. This gives difficulties in adjusting for disposals and maintains the risk that the reserve could be misstated in the accounts. This is an exercise that needs to be assessed and completed.

The North Highland College
Annual report for the year ended 31 July 2007

Neither of these issues were identified as risks in our original audit plan, but emerged during the audit process. The risk areas identified in our plan were satisfactorily dealt with as follows:

Issue	Audit risks	Planned audit approach	Outcome
Recognition of Funding Council Income			
The audit of 2006/07 student activity data by Cheine and Tait may result in adjustments to the SUMS which may take the College below 97% threshold and leave them subject to clawback of these funds.	<i>Recurrent grant income may be overstated in the accounts.</i>	<i>Reconciliation to year end remittance advice from SFC and review the outcome of the student activity data audit.</i>	Satisfactory
FRS 17 Accounting for Pensions			
Compliance with the accounting and disclosure requirements of FRS17	Disclosures and the accounting for pension costs and liabilities may not comply with FRS17 and the SORP Accounting in Further and Higher Education Institutions.	We will <ul style="list-style-type: none"> Review college correspondence with, and the report of the actuaries in relation to the scheme Review compliance with FRS17 	Satisfactory
Recognition of other Income			
The college are closely involved with the provision of Higher Education courses, in partnership with the UHI Millennium institute. This generates income of approximately £1.2m(2005-06 £1.5m)	Grant income may be overstated in the accounts.	Reconciliation to year end remittance advice from UHI and review the partnership agreement, and outcome of the student activity data audit	Satisfactory

The North Highland College
Annual report for the year ended 31 July 2007

Issue	Audit risks	Planned audit approach	Outcome
The college receive significant amounts of European and other grant funding.	Grant income may be overstated in the accounts.	<ul style="list-style-type: none"> Confirmation from funding bodies of amounts awarded, and paid. Review of grant conditions and any audit work on grant certification. 	Satisfactory
Provisions			
The college is required to make provision for the cost of early retirement of lectures who were members of the Teachers pension scheme.	The provisions may be understated.	We will review the computations in light of guidance from SFC.	Satisfactory
Year – end cut off			
The College has budgeted for a surplus of £44,000.	A significant under statement of liabilities could distort the financial performance for the year.	We will review items of expenditure processed after the year end to ensure no significant omissions.	Satisfactory
Corporate Governance			
Full compliance with corporate governance as set out by Audit Scotland.	<i>There is inadequate evidence available to support the disclosures within the financial statements</i>	<p><i>We will review internal audit work in this area.</i></p> <p><i>We will review the College's corporate governance arrangements to ensure that the minimum required evidence is available.</i></p>	Satisfactory

ADJUSTED AND UNADJUSTED ERRORS

4.7 Actual Audit Adjustments

The following adjustments were processed during the course of our audit.

	<i>£'000</i>
Surplus / (Deficit) per accounts presented for audit	202
<i>Adjustments:</i>	
Depreciation understated	(44)
Adjustments to provisions for fee waiver	(24)
Increase in provision for early retirees	(52)
Increase in accruals	(50)
Increase in deferred grants transfer	30
Reduction in deferred income	222
Credit of past pension costs to Income and Expenditure account	183
FRS17 pension costs	(72)
Pension scheme returns	47
Surplus / (Deficit) per final accounts	442

4.8 Potential Audit Adjustments

The following potential adjustments have been noted during the course of our audit but have not been actioned.

<i>Potential adjustments:</i>	<i>£'000</i>
Re-allocation of debit balances in Trade creditors (£5k)	Nil
Re-allocation of credit balances in Trade Debtors (£11k)	Nil
Potential overstatement of debtors	2
Understatement of Enhanced pension provision	(10)
Understatement of transfer from revaluation reserve	8
Capital accrual omitted	Nil
Net impact of potential adjustments	0

4.9 Accounting and financial control systems

We found that, in general, and except for the comments in 4.4 and 4.6 above, all aspects of the College's financial systems that were reviewed to be well controlled, providing a good basis for the preparation of accounts.

- There were no significant matters of weakness identified during the audit that we wish to draw to your attention, other than those highlighted at 4.4 and 4.6 above. We have reported separately by a management letter on less significant issue where we consider that improvements could be made.

4.10 Regularity audit

- We have issued an unqualified regularity opinion and there are no significant issues that we wish to draw to the Board's attention.

5 CORPORATE GOVERNANCE

5.1 Corporate Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. The respective responsibilities of The North Highland College and Tenon Audit are summarised in Appendix 2. This section of our report comments on the main aspects of our work, and highlights particular issues which arose.

5.2 Statement on Corporate Governance

The College have included in their financial statements, a statement on Corporate Governance. The statement clearly sets out the College's arrangements under each aspect of the code, and is a valuable enhancement of public accountability.

Although we are not required to form an opinion on the adequacy and effectiveness of the College's Code of Corporate Governance, we are required to report where a statement does not comply with the requirements of SORP or other guidance, or if it is misleading or inconsistent with other information of which we are aware.

In our opinion the statement is not misleading or inconsistent with other information which we are aware of from our other audit work.

5.3 Risk Management

Although the term "Risk Management" has become relatively common recently, the underlying principles – of identifying and assessing risks and taking action to minimise their occurrence and impact, are well established. The College's Committee structure, Financial Regulations, and Internal Audit functions are all examples of policies and procedures which address potential risks. However, it is now generally recognised that this process needs to become explicitly established as part of a management culture, and requires the implementation of consistent best practice through formal policies and procedures. The College have in place a Risk Management policy, and a risk Register.

5.4 Internal Audit

We adopt a managed approach in planning our audit work at your College. This means that we work closely with Internal Audit and place formal reliance on their work. This avoids duplication of effort and means that we can both direct our resources where they are most needed.

Our relationship with Internal Audit is governed by the International Auditing Standard ISA610 "Considering the work of Internal Audit".

It is the responsibility of management to determine the extent of the internal control system required. Internal Audit is an important element of the internal control system. Chiene and Tait C.A. provide the colleges internal audit function.

Wherever possible we use the work of the internal auditor to assist us in our assessment of the effectiveness of the internal controls in the College's main financial systems. We review internal audit reports and use the work of the internal auditor to plan our work and to inform our own risk assessment. However, to enable us to rely on the work of Internal Audit, we need to be satisfied that the audit work has been properly planned, controlled, performed, recorded and reviewed in accordance with the Internal Audit Standards and ISA 610.

We are pleased to confirm that we were able to derive the planned assurance in the areas examined and that the Internal Audit Service was carried out generally in accordance with the SFC Code of Practice.

In 2006/07 we placed reliance on assignments carried out by Internal Audit in the following areas:-

- SUMS audit and audit of FES returns

5.5 Systems of Internal Control

The respective responsibilities of the College and ourselves as auditors are set out at Appendix 2.

Through the results of our own testing, and our reliance on areas examined by Internal Audit, we have concluded that the fundamental key financial systems of the College are operating satisfactorily.

5.6 Other Governance responsibilities

Prevention and Detection of Fraud and Irregularities

The respective responsibilities of the College and ourselves as auditors are set out in Appendix 2. During the year, we have reviewed the overall arrangements through our review of systems.

The College also has in place a Prevention of Fraud Policy as part of their Quality Management Handbook, and a Fraud Response Plan, as part of their Financial Regulations.

In overall terms, we are satisfied that these arrangements are adequate.

Legality/Propriety

Again, the respective responsibilities of the College and ourselves as auditors are set out in Appendix 2.

Our review of the College's transactions and arrangements has revealed no areas of concern.

Standards of Conduct, Integrity and Openness

We have reviewed the College's arrangements which include:-

- Standing Orders of the Board of Management
- A Register of Members' Interests
- Information regarding their appointment to outside bodies and organisations is disclosed in the financial statements.
- A Code of Conduct for members and a code of conduct for staff as part of the Financial Regulations.

In overall terms we are satisfied that these arrangements are adequate.

6 ACTION PLAN

6.1 Observations on the College's Regularity Framework and Overall Control Environment

	Subject	Grade
1	Adherence to deadlines for completion of statutory accounts and audit	1
2	Review and enhancement of fixed asset register	2
3	Analysis and reconciliation of Revaluation Reserve	2

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

Grade 1: We believe these observations are particularly significant and that management should take prompt action.

Grade 2: These observations are significant but of a less urgent nature than Grade 1 observations. We believe that action needs to be taken within the agreed timescale.

Grade 3: Observations that merit attention but are less significant than Grade 1 and 2 observations.

Issues noted

1		Grade 1
<i>Issue</i>		
The deadlines set by the Scottish Funding Council and Audit Scotland for completion of the audit of the accounts were not achieved.		
<i>Recommendation</i>	<i>Management response</i>	<i>Action by whom: R Ferrier, Director of Finance/Tenongroup</i>
<i>The college and External audit should work in partnership to carry out a review of the requirements for the compilation of the accounts, within a timescale and to a standard that will enable the deadlines to be achieved.</i>	The College accepts this recommendation. The Director of Finance and the External Auditors will work together to ensure timeous compilation and submission of accounts in future years.	<i>Deadline: Draft stats by 15th October 2008.</i>
2		Grade 2
<i>Issue The Fixed Asset Register is not complete</i>		
<i>Recommendation</i>	<i>Management response</i>	<i>Action by whom: R Ferrier, Director of Finance</i>
The college should take this opportunity to realign the fixed assets records with the recent estates survey, and remove items from the register which are no longer in use.	The College accepts this recommendation. The Director of Finance will work with the relevant member of the senior management team to ensure implementation.	<i>Deadline: 31st May 2008</i>

3		Grade 2
<p><i>Issue</i></p> <p><i>The Revaluation reserve balance is not analysed and attributed to specific properties</i></p>		
<p><i>Recommendation</i></p> <p>This exercise, based on historic information, should be completed as early as possible.</p>	<p><i>Management response</i></p> <p>The College accepts this recommendation. The Director of Finance will work with the relevant member of the senior management team to ensure implementation.</p>	<p><i>Action by whom: R Ferrier, Director of Finance</i></p> <p><i>Deadline: 31st May 2008</i></p>

The North Highland College

Annual Report for the Year Ended 31 July 2007

Annexes for Management Information

Tenon audit

Independent auditor's report to the members of the Board of Management of the North Highland College, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of The North Highland 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, Principal and auditor

The Board of Management and the Principal 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 thereunder 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 the Board of Management'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 Report of the Board of Management 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 my 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 1 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. This other information comprises only the Report of the Board of Management and Statement of the Board of Management's Responsibilities for the Accounts. 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 and performed 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. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and 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

In our opinion 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 1 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.

Tenon Audit Limited

*10 Ardross Street,
Inverness.
IV3 5NS.*

Date

Our respective responsibilities

Financial Statements

It is the responsibility of the College to:-

- *Ensure the regularity of transactions by putting in place systems of internal control.*
- *Maintain proper accounting records.*
- *Prepare financial statements which present a true and fair view of the financial position of the College and its expenditure and income in accordance with the SORP.*

We are required to give an opinion on:-

- *Whether the accounts present a true and fair view of the financial position of the College and its expenditure and income for the period.*
- *Whether the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.*

In carrying out this responsibility we provide reasonable assurance that, subject to the concept of materiality, the financial statements:-

- *Are free from material misstatements.*
- *Comply with the statutory and other requirements applicable.*
- *Comply with relevant requirements for accounting presentation and disclosure.*

Corporate Governance

Corporate Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation.

Three fundamental principles apply:-

- *Openness*
- *Integrity*
- *Accountability*

We have a responsibility to review and, where appropriate, report findings on the College's corporate governance arrangements as they relate to:-

- *The College's review of its systems of internal control including its reporting arrangements.*
- *The prevention and detection of fraud and irregularity.*
- *Standards of conduct and arrangements in relation to the prevention and detection of corruption.*
- *The financial position of the College.*

Our work has focused upon our review of the College's Risk Management arrangements, systems of internal control, Internal Audit, consideration of the controls to prevent and detect fraud and corruption, and the audit of the final accounts.

In giving an opinion on the accounts our audit strategy requires us to ensure that the fundamental financial systems are adequately covered each year. Whenever possible, to avoid duplication of effort, we seek to rely on the work of Internal Audit.

However, our work cannot cover every financial activity and accounting procedure. We plan and perform our audit to give reasonable assurance that the financial

statements are free from material misstatement and that they comply with statutory and other requirements.

Risk Management

The College's Responsibility

It is the responsibility of the College to identify and address its operational and financial risks and to develop and implement proper arrangements to manage them, including adequate and effective systems of Internal Control.

The Role of Tenon Audit Limited

In planning our audit, we consider and assess your risk management arrangements as part of our assessment of audit risk. This helps us to tailor our audit plans so that they are both appropriate to your circumstances and directed to the areas of greatest risk.

Systems of Internal Control

The College's Responsibility

The College has a responsibility to develop and implement systems of internal control, including risk management, and systems of financial, operational and compliance controls.

Three components of a system of risk management are:-

- *Timely identification of key business risks.*
- *Consideration of the likelihood of the risks crystallising and the significance of the consequential financial or other impact.*
- *Establishment of priorities for the allocation of resources to control risk and the setting and communicating of key objectives.*

The monitoring of controls provides assurance that managers are assessing the existence of risk and the effectiveness of controls over the risks. The internal audit arrangements form an important part of management's monitoring and review of internal control arrangements, and in ensuring that appropriate monitoring of risks and controls takes place.

The role of Tenon Audit Limited

In broad terms the external auditor is expected to assess the internal controls in the College's main financial systems and report on any significant control weaknesses identified. This does not absolve management from its responsibility for the maintenance of an adequate internal control system.

Prevention and Detection of Fraud and Irregularities

The College's Responsibility

It is the responsibility of the College to establish arrangements to prevent and detect fraud and other irregularity. It therefore needs to put in place proper arrangements for:-

- *Developing, promoting and monitoring compliance with standing orders and financial instructions.*
- *Developing and implementing strategies to prevent and detect fraud and other irregularity.*
- *Receiving and investigating allegations of breaches of proper standards of financial conduct or of fraud and irregularity.*

The Role of Tenon Audit Limited

External audit is required to review the adequacy of the measures taken by the College, to test compliance, and to draw the attention of management to any weaknesses or omissions.

Legality

The responsibility for ensuring the legality of all activities and transactions rests with the College.

The responsibility of the external auditor is to review the legality of the College's transactions and to be aware of the requirements of statutory provisions.

Standards of Conduct, Integrity and Openness

Propriety is concerned with the way in which public business should be conducted. It is concerned with fairness and integrity. It must be recognised that the public view of propriety is as much about perception as reality.

The College's Responsibility

It is the responsibility of the College to ensure that its affairs are managed in accordance with proper standards of conduct. It needs therefore to put in place proper arrangements for:-

- *Implementing and monitoring compliance with appropriate guidance on standards of conduct.*
- *Expressing and promoting appropriate values and standards across the organisation.*
- *Developing, promoting and monitoring compliance with Codes of Conduct that advise Members, Officers or Managers of their personal responsibilities and expected standards of behaviour.*
- *Developing, promoting and monitoring compliance with standing orders and financial instructions.*

The Role of Tenon Audit Limited

It is our role to consider whether the College has put in place adequate arrangements to maintain and promote proper standards of financial conduct and to prevent and detect corruption. We discharge this duty by reviewing and where appropriate examining evidence that is relevant to these arrangements.

Financial Position

The College's Responsibility

It is the responsibility of the College to conduct its affairs and put in place proper arrangements to ensure that the financial position is soundly based having regard to:-

- *Financial monitoring and reporting arrangements.*
- *Compliance with statutory financial requirements and achievement of financial targets.*
- *Levels of balances and reserves.*
- *The impact of planned future policies and known or foreseeable future developments.*

The Role of Tenon Audit Limited

It is our role to consider whether the College has established adequate arrangements. We are also required to have regard to going concern as part of the audit of the financial statements. In carrying out this responsibility we consider:-

- *Financial performance in the year.*
- *Compliance with statutory financial requirements and financial targets.*
- *Ability to meet known statutory and other financial obligations actual or contingent.*
- *Responses to known developments which may have an impact on the College's financial position.*