James Watt College
Report to the Board and the Auditor General for Scotland

Year ended 31 July 2007

BDO Stoy Hayward

1 Executive Summary

Introduction

- The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of James Watt College ('the College') for the year ended 31st July 2007.

- The matters raised in this report, are only those which have come to our attention arising from or relevant to our work that we believe need to be brought to your attention. Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.

- This report has been prepared solely for the use by the Board of Management of James Watt College and the Auditor General for Scotland.

- We have completed our audit work in respect of the financial statements for the year ended 31 July 2007 and will be issuing an unqualified audit opinion for the year.

Scope of Work

- The accounting rules and regulations applied to Further Education Colleges are specifically laid out in various documents as discussed in section 3 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents.

Corporate Governance Arrangements

- The corporate governance statement within the College's financial statements states that the College now complies with all the provisions of the Combined Code in so far as they apply to the further education sector. Several weaknesses were identified in the FEDD report published in February 2007 and these have now been addressed by the College. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Compliance with Scottish Funding Council ('SFC') Accounts Direction

- We can confirm in preparing the financial statements the College has complied with the Accounts Direction for Scotland's colleges and universities issued under circular SFC/30/2007.

Conclusion

- The audit of the College was performed 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 (March 2007). This report has been issued to College management and will be considered by the Audit Committee.

Acknowledgement

- The 2006/2007 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

Financial performance

Income and Expenditure	The college made a deficit of £919,000 and an historical cost deficit of £354,000 for the year.
Net debt	There was a reduction in net debt of £3,016k during the year.
Balance Sheet	The financial statements show net assets of £13,700k. The balance on the revaluation reserve carried forward is a surplus of £15,599k.
Forecasts	The Board of Management are forecasting an operating surplus of £204k in the forthcoming year.

2 Introduction

Purpose of Report

- This report has been prepared in connection with our audit of the financial statements of the College for the year ended 31 July 2007. This report summarises the principal matters that have come to our attention during the course of the audit.

- The contents of the report should not be taken as reflecting the view of BDO Stoy Hayward LLP except where explicitly stated as being so. To a certain extent, the content of this report comprises general information which has been provided by, or is based on discussions with, the management of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

- One of the purposes of this report is to record features of the year's activities, the way they are treated in the financial statements and the comments thereon provided to audit staff by the College's staff.

Audit Bodies

- The Auditor General, a royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish public spending bodies to account for the proper, efficient and effective use of public money.

- Audit Scotland is an independent statutory body which was set up in April 2000 to provide assistance and support to the Accounts Commission and to the Auditor General for Scotland in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.

- BDO Stoy Hayward LLP was appointed by Audit Scotland as external auditor to the College for 5 years covering the financial years 2006/07 to 2010/11. This report summarises our audit work for 2006/07 and details how the requirements of the Code of Audit Practice have been met by the College and by BDO Stoy Hayward LLP.

College Responsibilities

- The College is publicly accountable for the conduct of business and the stewardship of funds under its control. The College's Board of Management is therefore responsible for:

    - establishing adequate corporate governance procedures;
    - ensuring funds from the SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which the SFC may from time to time prescribe;
    - ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
    - safeguarding the assets of the College and taking reasonable steps to prevent and detect fraud and other irregularities;
    - securing the economical, efficient and effective management of the College's resources and expenditure;
    - maintaining proper accounting records and preparing financial statements which give a true and fair view of the financial position of the College at the year-end and its income and expenditure for the year.

Auditors’ Responsibilities and Approach

- We are required to report to the Board of Management of the College and to the Auditor General for Scotland on the financial statements of the College. Our responsibilities are to:

  - provide an opinion, to the extent required by the relevant authorities, on the financial statements 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 requirements of Audit Scotland’s Code of Audit Practice (March 2007), regarding the College’s corporate governance arrangements relating to:

    - the College’s review of its systems of internal control

    - the prevention and detection of fraud and irregularity

    - standards of conduct, and prevention and detection of corruption

    - its financial position.

  - obtain an understanding of the accounting and internal control systems in place in the College sufficient to allow the audit to be planned and an effective audit approach developed.

- Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.

3 Scope of Work

- We took reasonable steps to plan and carry out the audit to ensure that the above responsibilities were met and that we complied with the requirements of Audit Scotland's Code of Audit Practice.

- In essence, the scope of our work is similar to that applied to a limited company audit. However, the accounting rules and regulations applying to Further Education Colleges are specifically laid down in various documents as detailed below.

Financial Memorandum

- This memorandum sets out the terms and conditions under which the Scottish Funding Council will make payments to the Board of Management of Colleges of Further Education out of funds made available by the First Minister of Scotland. We can confirm the College fully complies with the terms and conditions of the memorandum.

Accounts Direction

- In preparing its annual accounts the College is required to comply with the directions of the Scottish Funding Council (SFC). The Accounts Direction is designed to ensure that disclosures in the financial statements of all colleges follow best practice. We can confirm the College's financial statements comply with the Accounts Direction.

Guidance on Audit

- Audit Scotland's Code of Audit Practice (March 2007) sets down Audit Scotland's requirements for both internal and external audits. In carrying out our audit work we are also required to comply with International Standards on Auditing (UK and Ireland) and to take cognisance of any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board. We also comply with relevant ethical standards and guidance issued or adopted by the relevant professional accountancy bodies and any supplementary guidance issued by Audit Scotland.

Statement of Recommended Practice (SORP)

- The HE/FE SORP board issued the revised SORP effective from 1 August 2003. The SORP combines the requirements of institutions of Further and Higher Education to ensure financial statements are prepared on a consistent basis. We can confirm that the financial statements of the College comply with the SORP.

- A revised SORP: Accounting for Further and Higher Education was published in July 2007 and is effective for 2007/08. This reflects changes in accounting standards and in best accounting practice since the 2003 SORP was published. The key changes in the SORP are as follows:

    - The disclosure requirements of *FRS 25 Financial Instruments: disclosure and presentation* & *FRS 29 Financial Instruments : disclosures*, first apply on adoption of *FRS 26 Financial Instruments : measurement.*

    - *FRS 26 Financial Instruments : measurement* will apply to colleges qualifying as listed entities (including those with listed debt in issue) or those institutions adopting fair value accounting.

    - For colleges which do not have listed debt and are not applying fair value accounting in accordance with the Companies Act or FRS 26, the relevant parts of *FRS 4: Capital Instruments* remain applicable.

    - The disclosure requirements in respect of *FRS 17 Retirement benefits* has been amended. It now states that the Local Government Pension Scheme (LGPS) is a multi employer scheme where it is normally possible for individual employers as admitted bodies to identify their share of assets and liabilities. The SORP therefore considers these schemes should be accounted for as defined benefit schemes (provided that the assets and liabilities relating to colleges can be measured on a reliable and consistent basis) and that the exemption which allows accounting on a defined contribution basis is unlikely to apply. However, in the unlikely case that the exemption does apply, the SORP requires that, in addition to the defined contribution disclosures required by FRS 17, colleges should disclose:

- the reason why sufficient information is not available to account for the scheme as a defined benefit scheme;
- the fact that the scheme is a defined benefit scheme but the college is unable to identify its share of the underlying assets and liabilities;
- any available information about the existence of the surplus or deficit in the scheme and the implications of that surplus or deficit for the college.

This may apply to the SPF scheme in 2007/08.

Other matters

- Operating and financial review requirement
- Charitable donations and endowment accounting
- Bursaries and scholarships accounting
- Component accounting

We will discuss the revised SORP in our planning letter for the 2007/08 financial statements audit.

4 Audit Findings

Preparation of Financial Statements

- The financial statements which were made available for audit on 8 October 2007, contained no Report of the Board of Management and some of the notes to the financial statements required later redrafting. We discussed this with the Director of Finance and accept that he wished to amend some of the note narratives and to discuss these with us. Supporting working papers provided by the College were in accordance with our request for information and the level of detail required will be revisited at next years audit planning meeting.

Audit Opinion

- We are satisfied that the financial statements of the College present a true and fair view of its financial position as at 31 July 2007. Following approval of the financial statements by the Board of Management on 18 December 2007, our audit report expresses unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2007 and (ii) regularity.

Financial Performance

Results for Period

- The College made an historic cost deficit of £354,000 in respect of the year ended 31 July 2007 compared to a deficit of £3,320,000 for the year ended 31 July 2006.
- Net assets at 31 July 2007 are £13,700,000 (31 July 2006: £15,131,000)
- The balance on the income and expenditure account carried forward as at 31 July 2007 is a deficit of £5,690,000 (31 July 2006: deficit of £5,336,000).
- The balance on revaluation reserve carried forward as at 31 July 2007 is a surplus of £15,599,000 (31 July 2006: surplus £16,164,000).

Net Debt

- During 2006/2007 the College reduced net debt by £3,016,000 (2005/06: reduction of £1,968,000).

Going Concern Basis

- In preparing the accounts on a going concern basis, the Board of Management is satisfied that sufficient funding is in place to enable the College to operate for at least twelve months from 18 December 2007.

Performance Indicators

- The Scottish Further Education Funding Council's ('SFEFC') financial security campaign was announced in December 2002, its principal objective being that all colleges would report underlying operating surpluses by the end of 2005-06. Financial security is defined as the ability, on a continuing basis, to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve. The college must also generate sufficient cash to finance its operations and meet its liabilities; regular operating surpluses would ensure this.
- Under the terms of the financial memorandum between SFC and the College, it is the responsibility of the governing body "*to ensure that the institution strives to achieve best value from its use of public funds from all sources*". It is intended that the financial performance indicators used by the Funding Council, when set alongside other performance data, will support the college in seeking best value.
- The table overleaf has been produced from the data published by the Funding Council through circular SFC/33/2007 in respect of the

Financial Statements as at 31 July 2006. The formulae have then been applied to the 2006/07 Financial Statements.

- As can be seen the College indicators in the main show improvements over last year. The College performs below group and sector averages across all ratios (Income base - £20M and above).

	James Watt College Factor 2006-07	**James Watt College Factor 2005-06**	**Group Average Factor 2005-06**	**Sector Average Factor 2005-06**
Underlying operating surplus/ (deficit) % of total income	1.4%	(3.10)%	2.7%	2.2%
Operating surplus/ (deficit) % of total income	(2.47)%	(6.51)%	0.5%	0.8%
Designated plus I&E reserves % of total income	(15.32)%	(14.50)%	13.1%	10.50%
Historical cost surplus/ (deficit) % of total income	(0.95)%	(9.02)%	1.2%	1.9%
Current assets: Current liabilities	1.06	0.6	1.3	1.3
Interest Cover	(0.14)	(3.7)	0.3	3.0

Grant in Aid Funding

- The College delivered 152,088 WSUMS in the year against a target of 156,121. As this was within 3% of the target, the College will not be liable to refund any amounts received in 2007/08.

Corporate Governance Framework and Statement

- The Board of Management has five formally constituted committees which have specific terms of reference and act with delegated authority from the Board.

- We reviewed the College's corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The College has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.

- The FEDD report of February 2007 was critical of the Corporate Governance arrangements within the College. From our review of Corporate Governance arrangements within the College we do not believe the Corporate Governance statement to be misleading or inconsistent with other information made available to us during the audit process.

System of Internal Control

- A review and assessment of the College's corporate governance arrangements was carried out. This assessment included a review of the College's committee minutes and completion of a number of standard checklists. The checklists cover issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct, issues of legality and the College's financial position.

- The College, in accordance with the Accounts Direction, has included in its financial statements, a statement covering the responsibilities of the Board of Management in relation to corporate governance.

- Our review of the statement concluded that it complies with guidance and is not inconsistent with other information we are aware of from our audit.

Prevention and detection of Fraud and Corruption

- The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment showed the arrangements to be operating satisfactorily. No frauds were identified by the College in 2006/07.

Review of Internal Audit

- 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 systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality.

- Internal audit services are provided by Wylie and Bisset. An assessment was made of the adequacy of the internal audit input and it was concluded that we as external auditors were able to place reliance on the work of internal audit. Accordingly a certain amount of reliance was placed on the work of internal audit in the following areas during 2006/2007.

  - **Fixed Assets, Estate Management & Inventories**
  - **Corporate Governance**
  - **Personnel and Payroll**
  - **Risk Management**
  - **Budgetary and Financial Controls**
  - **Purchasing and Payments**

In December 2007, Wylie & Bisset issued the internal audit report for the year ended 31 July 2007. This concluded that, the College has an adequate framework of control, based on the systems examined.

Misstatements

- During the course of our audit work, we identified a number of potential audit adjustments. These have been discussed with College management and are not considered to be significant in the context of the Financial Statements. Consequently we did not request adjustment to be made to the figures contained in the Financial Statements in respect of these amounts.

Accounting and Internal Control System

- Several observations were made during the course of our audit. These are listed in section 5 along with recommendations noted last year by external audit.

Qualitative Aspect of the College's Accounting Practice and Financial Reporting

- Our overall assessment, based on our work undertaken, is that the financial procedures of the College are adequate to enable annual financial statements to be produced in the prescribed form.

FRS 17 – Retirement Benefits

- This standard was published in November 2000 introducing significant changes to the way in which colleges should account for defined benefit pension schemes. Full implementation of FRS17 – 'Retirement Benefits' was mandatory for 2005/06 year ends. The College participates in the Scottish Teachers Superannuation Scheme and the Strathclyde Pension Fund ('SPF') which are defined benefit pension schemes. The schemes are multi-employer schemes and the College is of the opinion that the share of assets and liabilities applicable to each employer cannot be identified on a consistent and reasonable basis. The College has therefore accounted for its pension costs for both schemes on a defined contribution basis as permitted by FRS 17 and the guidance issued by SFC.

- In 2006 the SPF issued a Funding Strategy statement for consultation. It is envisaged that separate employer rates will be introduced by 2008 at the earliest. Assets are currently apportioned based on the liability profile though employer assets have been tracked for each employer since 2002. Indications are that the SPF are moving in the same direction as the Lothian Pension Fund and hence towards full defined benefit disclosures. However consensus at a meeting of college representatives, Audit Scotland, SPF, Hymans Robertson and the SFC in 2006 was that the characteristics of the scheme, as presently constituted, enable college representatives to consider using the reduced disclosure requirements available for defined benefit schemes, within the criteria of FRS17.

Early retirement provision

- Included in the balance sheet is a provision for the cost of providing for enhanced pensions. The College recalculated this early retirement provision using actuarial tables and guidance issued by SFC. The interest rate recommended by SFC was 2.3%. The interest rate used by the College was reduced from last years figure of 2.5% to 2.0% (the tables only give indices changing by 0.5%) on the basis that 2.5% would understate the College's liability in the balance sheet. This resulted in an additional charge of £250k to pension costs.

Recognition of ESF income

- The College is accounting for ESF income in its income and expenditure account by matching income against relevant costs in accordance with its accounting policy. During the course of our audit work we uncovered no breaches of the conditions attached to the ESF claims and we received assurances from management that this was the case.

Restructuring costs

- The College incurred costs of £1,200k in the year in relation to restructuring costs. These costs were funded by the College via loans provided by SFC. A loan repayment schedule has been agreed with SFC. The accounting treatment and disclosure of these costs is in accordance with established practice.

FEDD Report

- A team from the Further Education Development Directorate ("FEDD") was commissioned to carry out a review of the College's high level finance processes after the College began to encounter serious financial difficulties. The report dated February 2007, identified serious governance and management failures and was accepted by the Board of Management which has committed itself to implement the report's recommendations. The Board of Management receive an update on the College's action plan at each Board meeting.

Financial Recovery Plan

- The College's Financial Recovery Plan states that the College anticipates total savings of approximately £1,600k as a result of the College restructuring exercise following the FEDD Report. These savings have been carried into the Income and Expenditure budget projections for 2007-08. Projected operational surplus for the year ending 31 July 2008 is £204k. Our discussions with management indicate that the College will be able to meet the objectives set down in both the Financial Recovery Plan and the Strategic Development Plan 2007-10.

Trade Debtors

- As at 31 July 2007 the list of trade debtors showed balances due to the College of £746k. A bad debt provision of £533k (being 71% of outstanding debts) was made against the individual balances as one of the adjustments in arriving at the amount recoverable at year end.

The bad debt provision appears to be adequate from an audit perspective and we note that a paper was put to the Board of Management in September 2007 detailing ways of improving the recoverability of debt.

- We acknowledge that there is a commercial trade off between SUMS and recoverable fees. We understand that management wish a more commercial approach to be taken by the Heads of School to develop profitable courses rather that the curriculum being developed by the Finance Department. This ties in with the recommendations made in the FEDD Report.

Accounting policies

- Our review of the accounting policies resulted in us recommending that certain policies be updated. This was accepted by management. The updated policies should now be approved by the Finance Committee.

Severance Arrangements

- Professor William A Wardle's employment as Principal of James Watt College was terminated on 31 December 2006. Under a compromise agreement between Professor Wardle and the College, Professor Wardle received a termination payment of £112,000 together with pay in lieu of holiday entitlement of £3,538 and £3,500 plus VAT towards the cost of legal advice provided to him. We reviewed the severance settlement to ensure that the correct due process had been followed.

We reported to the College on 16 May 2007. In summary, the College had no formal severance policy in place in December 2006. Evidence presented to us showed that the College utilised the good practice guidance issued by the Scottish Further Education Funding Council in circular letter FE/03/2000 dated 20 January 2000 entitled "Guidance on Severance Arrangements to Senior Staff in Scottish Further Education Colleges" ("The Guidance").

The documentation supplied to us provided evidence that The Guidance in circular letter FE/03/2000 had been substantially followed. There were several areas where The Guidance was not fully followed or whether the information provided to us was insufficient to enable us to conclude that specific aspects of the guidance were followed.

Whilst these areas may have deviated slightly from The Guidance, our overall conclusion was that the settlement process followed conformed in the main with best practice. We noted, however, that the determination of the quantum of the severance payment could have been more comprehensively justified and documented. In view of the above, we do not have any adverse findings which require to be brought to the attention of the Audit Committee or the Board of Management.

In the course of our work in connection with the review of the severance arrangement we noted that the College had no formal severance policy in place in September 2006. We understand that a formal severance policy has still to be devised and adopted.

Waterfront Campus

- The Halls of Residence at the Waterfront Campus is a net cash burner because of unsustainable occupancy levels, high operational costs, and unaffordable capital repayments. The under-utilisation of the Waterfront Campus is also of concern, as cash-flow statements have shown the Campus to be cash negative. We understand that College management are actively looking at ways to improve capacity utilisation within the Waterfront Campus in order to stabilise the situation there in the medium term.

5 Accounting and Internal control systems

Findings from 2007 audit process

Student support funds

Observation

- College bank accounts were used to facilitate the student support funds throughout the year, resulting in a material debtor of £602k accumulating at the year end.

Issue

- The College acts as an agent on behalf of SAAS and SFC in relation to the distribution of these funds. All receipts and payments should be processed through the separate bank accounts set up for these funds.

Recommendation

- The College should ensure that separate ledgers are maintained for all agency funds, and that all receipts and payments are dealt with through independent bank accounts for each Student Support Fund.

Management Response

- *It should be noted that there is no SFC requirement to hold Student Support funds and College funds in separate bank accounts, although the College does this at present as a matter of good practice. Additionally, as of September 2007, all Student Support is being maintained as a 'separate entity' within the College's Financial systems. This will ensure that as well as all receipts and payments being dealt with through independent bank accounts, the Bursary area and the College will now have a 'third party' trading relationship, i.e. each will use invoices and purchase orders to trade with the other for goods and services, ensuring each as a offsetting trade debtor and creditor relationship. Student support bank signatories and internet banking access have also been changed to provide greater segregation of duties between Bursary and College financial staff.*

Payroll administration

Observation

- During the course of our field work it was noted that only two members of staff had access to and were able to operate the current Payroll system.

Issue

- In the event of the departure or absence of these two key employees, there would be no means of gaining access to current and past payroll information, nor the ability to process payroll information.

Recommendation

- The access rights and training of suitable personnel should be revisited to ensure that additional members of staff (including a member of senior management) are capable of operating both the payroll and human resource systems.

Management response

- *The College is part way through the implementation of new fully integrated Payroll and HR software, which is scheduled to 'go-live' in April 2008, coinciding with the new tax year. As part of this implementation process, revised procedures and access rights for Finance and HR staff will be formulated via 'Proof of Concept' and 'User Acceptance' testing which will take place across January to March 2008. College management will take note of the auditors' recommendation when formulating these revised procedures.*

Self Assessment

Observation

- There have been no Board Member self assessment procedures carried out in the year to 31 July 2007.

Issue

- This is not in line with recommended practice as contained within the "*Guide for College Board Members, 2006*", produced for the Association of Scottish Colleges (ASC) and supported by SFC.

Recommendation

- We recommend that the College reviews the above guidance and implements a system of self assessment on a periodic basis.

Management response

- *A self-assessment session of Board Members took place in November 2007 using a full self-assessment framework, based on the best practice guide from the Association of Scotland's Colleges. A full report will be submitted to the Board in December 2007.*

Fixed Asset Register

Observation

- The College does not maintain a detailed fixed asset register.

Issue

- It is not possible to identify individual fixed assets in the Excel spreadsheets which make up the asset register.

Recommendation

- We would recommend that the College implements a full fixed asset register recording asset numbers, locations and capital grants obtained on the assets. Such a register should enable management to better quantify fixed asset transactions for financial accounting purposes, linking with control of fixed assets in terms of the financial memorandum.

Management response

- *College management accept that implementation of a fixed asset register is required, an issue which was also raised by Internal Audit in their report of May 2007. However the College believes that whilst important, a number of other issues which are more critical to operational effectiveness and financial security must take priority in the short term. College management have therefore targeted July 2008 for review of this requirement.*

Deferred Capital Grants

Observation

- During the course of our audit work it was not possible to trace deferred capital grants in respect of grants received in prior years to the associated fixed assets.

Issue

- It is the policy of the College to release deferred grants to the income and expenditure account over the expected useful economic life of the related asset.

Recommendation

- We recommend that the College reviews all deferred capital grants brought forward and matches these to the related fixed assets to ensure that the release to income and expenditure account and the deferred capital grant reserve in the balance sheet are not misstated.

Management response

- *There is no automated system in place to match all prior year capital grants and individual assets due to the limitations of the Excel spreadsheets which currently make up the asset register. However, a link is in place for 2005/6 grants onwards, and ongoing maintenance of this linkage will form part of the fixed asset register review mentioned in the response above.*

Annual declarations of Member's Interests

Observation

- From a review of the Register of Interests, of the thirteen Board Members only six members have returned a declaration form, of which four have not updated their disclosure forms for at least twelve months as at 31 July 2007.

Issue

- This conflicts with the College's control procedures.

Recommendation

- We recommend the College ensure that all outstanding and out of date annual declarations are signed and dated by the appropriate Board member on completion, and passed to the Clerk to the Board.

Management Response

- *As at 5 December 2007, 12 of 15 annual declaration forms have been signed and submitted to the Clerk to the Board. Other board members have been contacted directly to confirm the obligation on them, and the College, to submit a declaration. A rolling programme of updates for these declarations will become effective from December 2007, and this issue will be covered in a Governance paper to be submitted to the Board in December by the Clerk to the Board.*

Recommendations made during 2006 audit

- A number of action plan points were made by the external auditors in 2006. Many of these points have been satisfactorily resolved but the following require points have still to be addressed. These are in relation to:

  - **Revision of the Financial Regulations**
  - **Old debts on the sales ledger**
  - **Write off of bursary bad debt**
  - **Adequacy of Board of Management and Sub-Committee minutes**
  - **Compilation of a full fixed asset register**
  - **Compilation of a fraud register**
  - **Use of College bank accounts to finance Bursary payments.**

- Several of these points have been referred to earlier in this document.

6 Other matters

- The Charities and Trustee Investment (Scotland) Act 2005 ("the Act") came into force in April 2006, introducing new duties and responsibilities for the Office of the Scottish Charity Regulator ("OSCR").

  All charities, including Scotland's colleges, are required to demonstrate to the Office of the Scottish Charity Regulator (OSCR) that they meet the new charity test, set out the in the Act. In a pilot, on John Wheatley College, OSCR ruled that the college did not meet the charity test because its constitution permits Scottish Ministers to direct or otherwise control its activities. This ruling means that at present none of Scotland's colleges would currently pass the charity test. The Scottish Government is reviewing the situation and in a statement issued on 30 October 2007, pledged government support to ensure that colleges retain their charitable status.

BDO Stoy Hayward LLP

19 December 2007