



HENDERSON LOGGIE

Aberdeen College

**Annual Audit report for 2007/08
to the Board of Management and
the Auditor General for Scotland**

External Audit Report No: 2008/03

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Contents

	Page	
1 Executive Summary	1-2	Notice: About this report
2 Introduction	3-4	This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's <i>Code of Audit Practice</i> ('the Code') and <i>Statement of Responsibilities of Auditors and Audited Bodies</i> .
3 Corporate Governance	5-10	This report is for the benefit of only Aberdeen College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.
4 Performance	11-12	Nothing in this report constitutes a valuation or legal advice.
5 Financial Statements	13-14	We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.
Appendix I - Confirmation of Independence	15	This report is not suitable to be relied on by any party wishing to acquire rights against Henderson Loggie CA (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.



Executive Summary

1.1 Corporate Governance

- ❑ The Group has shown a surplus for the year of £1.834 million and an income and expenditure account balance of £11.809 million at 31 July 2008. The College's position is a surplus for the year of £1.776 million and an income and expenditure account balance of £11.766 million at 31 July 2008.
- ❑ The College's Corporate Governance Statement confirms that the College complies with all of the provisions of the 2006 Combined Code on Corporate Governance in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2008.
- ❑ We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively.
- ❑ In accordance with the Financial Memorandum with the Scottish Funding Council (SFC), the College Board of Management is required to secure the provision of an effective internal audit service. The College appointed Wylie and Bisset LLP as internal auditors in October 2008 and a programme of work covering the 2007/08 financial year was completed prior to sign-off of the 2007/08 financial statements.

- ❑ Wylie and Bisset LLP concluded that *'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Aberdeen College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work.'*
- ❑ Following a review by Her Majesty's Inspectorate of Education (HMIe) the College achieved the highest possible grade of *very good* (major strengths) across the seven cross-college elements of the review.
- ❑ The College has an on-going process for identifying, evaluating and managing its significant risks.

1.2 Performance

- ❑ The College updated its Strategic Plan during the year. Board members' self-evaluation of performance scored the College's strategic planning arrangements as 'very good' representing a major strength.
- ❑ The College's risk management policy was updated in 2006 with the Risk Register updated on an on-going basis to account for changes in strategic and operational risks.



Executive Summary

1.2 Performance (Cont'd)

- ❑ Regular performance reports are submitted to the Board and Committees during the year. Performance Indicators are established and use of benchmarking focussed on quality improvement is made by the College.
- ❑ The College submitted updated Efficient Government Initiative (EGI) information schedules to the SFC in November 2008. The first showed that the College has delivered savings totalling £1.664 million over the period 2005/06 to 2007/08. The College also submitted a forecast for the period 2008/09 to 2010/11 showing total projected savings of £4.929 million.
- ❑ The College has a VFM policy setting out the objectives and responsibilities for securing value for money.

1.3 Financial Statements

- ❑ On 15 December 2008 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008 and on the regularity of the financial transactions reflected in those financial statements.
- ❑ The annual financial statements of the College comply with the Accounts Direction issued by SFC and the new Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- ❑ Based on the results for the year to 31 July 2008 the College meets the requirements of the Funding Council to be classed as financially secure.
- ❑ Five audit adjustments, together with a number of disclosure adjustments, were made to the financial statements. A separate report to those charged with governance has been issued which explains the nature of the adjusted misstatements.
- ❑ In 2007/08, as in previous years, the College accounted for its participation in the Aberdeen City Council Pension Fund as if it were a defined contribution scheme. This is consistent with the accounting treatment adopted in previous years and current advice provided in the SFC's Accounts Direction guidance notes and by the scheme actuaries.
- ❑ The College has exceeded its SUMS target for 2007/08 by 7.2% (2006/07 – 9.4%).



Introduction

2.1 Background

2.1.1 2007/08 was the second year of our five year appointment as external auditors of Aberdeen College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work.

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our *Strategic Planning Memorandum and 2007/08 Annual Audit Plan* issued on 12 May 2008 and considered and approved by the Audit Committee on 20 May 2008. The scope of the audit was to:

- provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;
- review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and
- review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

2.1.3 Our audit approach focused on the identification of the significant risks areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include;

- compliance with legislation and financial regulations;
- fixed assets transactions, including consideration of any impairment; the estates development strategy implementation; the proposed sale of the Balgownie Centre; on-going estate improvements and maintenance; and compliance with relevant financial reporting standards;
- recoverability of debtors;
- compliance with Financial Reporting Standard (FRS) 17 *Retirement Benefits* and provision for pension liabilities for early retirees;
- recognition of funding provided for specific purposes and the regularity of corresponding expenditure;
- the financial results of the College's subsidiary company and the impact on the Group financial statements; and
- compliance with the new SORP on Accounting for Further and Higher Education.



Introduction

2.2 Basis of Information

- 2.2.1 External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 2.2.2 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.
- 2.2.3 As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

2.3 Acknowledgement

- 2.3.1 Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.



Corporate Governance

3.1 Financial Position

3.1.1 Funding Council circular FE/54/02, issued on 20 December 2002 defines a college that is financially secure as one that *‘on a continuing basis, is able 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 meets its liabilities; regular operating surpluses would ensure this.’*

3.1.2 Table 1 provides a summary of the College’s planned and actual financial results, based on the formal returns submitted, by the College, to the Funding Council.

Table 1: Comparison of planned and actual financial results

	2006/07 Actual £000	2007/08 Planned £000	2007/08 Actual £000	2008/09 Planned £000
Financial outturn Surplus	3,051	938	1,834	371
Income and expenditure reserves	9,498	10,914	11,809	13,042
Cash balances	14,454	17,096	18,262	19,090

Source: Audited financial statements and 2008 FFR

3.1.3 Based on the results for the year to 31 July 2008 the College meets the requirements of the Funding Council to be classed as financially secure.

3.1.4 Overall, College income in 2007/08 has increased by £1.024 million (2.5%) over 2006/07. The main reason for this is a significant increase of £1.420 million (5.8%) in SFC recurrent grant; an increase of £0.725 million (131.3%) in other income; and an increase of £0.267 million in investment income, reflecting the high level of funds on deposit. The increase in other income is due in part to recognition of a non-refundable deposit of £0.350 million held by the College in relation to a proposed land sale which is not now going ahead (refer paragraph 3.1.17 below). The above increases have been offset by a significant reduction of £1.377 million (11.4%) in tuition fees and education contracts income. This is mainly due to a decrease of £1.277 million (19.6%) in education contracts (other funded tuition). A lower than expected level of activity through the College’s Business Development Unit during 2007/08 and the loss of a contract with the Engineering Construction Industry Training Board has contributed to this position.

3.1.5 Expenditure in 2007/08 rose by £2.300 million (6.2%) over 2006/07 primarily due to staff costs increasing by £1.374 million (7.3%) and an increase in other operating costs of £0.761 million (4.9%). College staff received a pay increase of 5% from August 2007 accounting for the majority of the increase in staff costs. Staff numbers (FTEs) are consistent with last year for permanent members of staff however show a reduction of 19.0% for staff on temporary contracts due to a more efficient use of resources. Within other operating costs, increases of £1.019 million (23.9%) in relation to teaching activities and £0.951 million (28.8%) in relation to premises are offset by a significant decrease in agency costs, which are down by £1.203 million (23.6%).



Corporate Governance

3.1 Financial Position (Cont'd)

3.1.6 The College's cash balance at 31 July 2008 was £18.262 million, an increase of £3.808 million (26.3%) on the previous year. The level of build up in cash balances is in part linked to the College's Estate Development Strategy.

2007/08 SUMs outturn

3.1.7 The College's outturn against its 2007/08 SUMs target is shown in table 2.

Table 2: 2007/08 SUMs outturn

	2006/07	2007/08
SUMS target	149,421	151,214
SUMS actual	163,467	162,045
Excess	14,055	10,831

Source: Audited SUMs returns

3.1.8 As the College's external auditor we carried out the audit of the SUMs return for 2007/08. We concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

FRS 17 Retirement Benefits

3.1.9 In 2007/08, as in previous years, the College accounted for its participation in the local government pension scheme as if it were a defined contribution scheme. This is consistent with the accounting treatment adopted in previous years and current advice provided in the SFC's Accounts Direction guidance notes.

3.1.10 Audit Scotland's sector overview report highlighted that the variation in accounting treatment adopted by colleges in relation to FRS 17 makes it difficult to perform a like-for-like comparison. Audit Scotland recommended that the SFC should consider whether to prescribe a specific approach in accounting treatment where UK accounting standards allow more than one approach to be taken. The SFC has not prescribed a specific approach in this area to date however the College should review compliance with any future direction by SFC.

3.1.11 The Auditing Practices Board Practice Note 22 *The Auditors' Consideration of FRS17 'Retirement Benefits' – Defined Benefit Schemes* requires auditors of entities accounting for multi-employer defined benefit schemes as if they were defined contribution to make enquiries of the directors regarding the basis for their conclusion that the entity's share of the scheme assets and liabilities cannot be identified. Auditors should also consider any relevant professional advice (for example actuarial or legal advice) that the directors may have obtained on this issue. Such enquiries were made via the Vice Principal and we also considered advice provided to the College by the Aberdeen City Council Pension Fund actuaries to support the current accounting treatment.



3.1 Financial Position (Cont'd)

FRS 17 Retirement Benefits (Cont'd)

3.1.12 An amendment to FRS 17 was issued in December 2006 and was effective for the 2007/08 financial statements. The amendment replaces the existing disclosure requirements of FRS 17 with those of International Accounting Standard 19 *Employee Benefits*. For defined benefit schemes treated as defined contribution the disclosure now required includes:

- i. the fact that the scheme is a defined benefit scheme;
- ii. the reason why sufficient information is not available to enable the employer to account for the scheme as a defined benefit scheme;
- iii. any available information about that surplus or deficit;
- iv. the basis used to determine that surplus or deficit; and
- v. the implications, if any, for the employer.

We were able to confirm compliance by the College with the FRS 17 amendment.

Capital Income and Expenditure

3.1.13 The College purchased assets with a value of £1.722 million in the year relating to land and buildings, ICT and other equipment. These have been funded from the College's own funds together with deferred capital grants totalling £1.176 million.

3.1.14 Estate expenditure will remain a high area of spend for the College over the coming years with a capital programme in the region of £100m. Estate improvement will be important in ensuring that corporate objectives and aims around the physical environment necessary to deliver a high standard of learning and teaching are met. In that regard the College has an agreed Estate Development Strategy.

3.1.15 The College's Outline Business Case (OBC) for estates development was approved by SFC in 2006/07 however no specific capital funding was committed to the College at that time above the annual capital grant allocation, leaving a substantial funding gap. During 2007/08 the SFC requested that the College update the OBC and this will be considered by SFC's Capital Investment Committee, with individual elements expected to follow on to Full Business Case.

3.1.16 The first stage of the latest plans involves the creation of a new state of the art building at the Altens Centre to accommodate the central facilities and teaching facilities for the Construction department. The College also plans to construct accommodation for its subsidiary company ASET Ltd and establish satellite centres in Ellon, Inverurie and Stonehaven.

3.1.17 The College had an agreement in place to sell the Balgownie Centre, subject to planning approval being granted. The funds generated from the proposed sale were earmarked as part of the funding solution for the implementation of the Estates Development Strategy. In October 2008 the College received formal notification that the company with which it had the agreement had withdrawn from the contract, which will have a significant impact on the funding element of the strategy.

Corporate Governance

3.1 Financial Position (Cont'd)

Capital Income and Expenditure (Cont'd)

- 3.1.18 The College Board of Management has been fully involved in the capital investment appraisal process to date and the Investment and Project Committee was established in February 2008 with responsibilities relating to the control, progression and fulfilment of the Estates Development Strategy. During the year, at the invitation of the Board, members received a presentation from SFC officers and consultants on the application of the SFC's guidance on the procurement of major capital projects. At this session the project governance arrangements that the Board had put in place were recognised as best practice. The issue of funding estates development from the proceeds of property disposals, given the current market conditions, was raised and the Board advised to take professional advice and identify the optimum time to dispose of property.
- 3.1.19 At 31 July 2008 an interim valuation of the College's land and buildings was performed in line with Financial Reporting Standard (FRS) 15 *Tangible Fixed Assets*. This gave rise to a valuation gain of £2.807 million, which has been credited to the revaluation reserve.

Designated Reserve

- 3.1.20 The College maintains a Designated Reserve to hold disposal proceeds of properties sold as part of the Board's Accommodation Strategy. Funds are released from the reserve to match associated costs of works undertaken as part of the Strategy. There was a release of £0.231 million from the reserve to the Income and Expenditure Account during the year.

Provisions

- 3.1.21 The College has a provision in its balance sheet for £5.714 million relating to pension costs from early retirements awarded to former employees. The provision has increased by £0.311 million in the year to reflect the actuarially assessed pension liability.

3.2 Systems of Internal Control

Control environment

- 3.2.1 Our work undertaken in relation to the 2007/08 financial statements audit has not identified any control weaknesses in the operation of financial controls and procedures.

Internal Audit

- 3.2.2 Audit Scotland's *Code of Audit Practice* directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. At the time of preparation of our *Strategic Planning Memorandum and 2007/08 Annual Audit Plan* in May 2008 the College was in the process of changing its internal audit provider and no internal audit work had been carried out for 2007/08 at that time. The College expected to make an appointment by the end of May 2008 with a programme of internal audit work completed in June / July however an initial tendering process failed to secure an appointment and the above timescale was not met. This required us to reassess our audit plan for 2007/08 and adopt a more substantive approach. Following a second tendering exercise, Wylie and Bisset LLP was appointed as the College's internal auditors in October 2008 and a programme of work covering the 2007/08 financial year was completed prior to sign-off of the 2007/08 financial statements.



Corporate Governance

3.2 Systems of Internal Control (Cont'd)

3.2.3 Wylie and Bisset LLP concluded that *'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Aberdeen College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work. Our fieldwork was carried out between November and December 2008 and we have not undertaken any further internal audit assignments at the time of this report.'*

HMIE Review

3.2.4 We are also required by Audit Scotland's Code of Audit Practice to contribute to the *'whole organisation'* approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.

3.2.5 The report published by Her Majesty's Inspectorate of Education in April 2008 following its review of the College in late 2007 / early 2008 concluded that *'HMIE is confident that:*

- the College has in place effective learning and teaching processes;*
- learners are progressing well and achieving appropriate outcomes; and*
- the College is managing well and improving the quality of its services for learners.'*

The College achieved the highest possible grade of *very good* (major strengths) across the seven cross-college elements of the review.

Learning and teaching was assessed as *very good* in three of the eight subject areas evaluated and *good* (strengths outweigh weaknesses) in the other five areas. Learner progress and outcomes were assessed as *very good* in five areas and *good* in the other three.

3.3 Corporate Governance Statement

3.3.1 Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management. The College adopted the Combined Code on Corporate Governance issued in June 2006 for the 2007/08 financial statements.

3.3.2 We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal controls.

3.3.3 The College's corporate governance statement for 2007/08 states the College complies with all of the provisions of the 2006 Combined Code on Corporate Governance in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2008.



Corporate Governance

3.3 Corporate Governance Statement (Cont'd)

- 3.3.4 Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.
- 3.3.5 The College has continued to develop its corporate governance arrangements over 2007/08 including: review and re-adoption of the Code of Conduct for Members; review and update of the Induction Procedure for New Members; review of the Memorandum of Understanding between the Board and the ASET Ltd; and consideration of the governance arrangements for ASET Ltd.
- 3.3.6 As part of their programme of work for 2007/08 internal audit reviewed the College's corporate governance arrangements and concluded that the systems and procedures used by the College are 'strong' in this area.

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

- 3.4.1 During 2007/08 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements*.
- 3.4.2 The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations and a Prevention of Fraud Policy. These documents are reviewed and updated annually.

- 3.4.3 There are no outstanding recommendations from previous reports in relation to prevention and detection of fraud and irregularity, standards of conduct and prevention and detection of corruption.



Performance

Introduction

- 4.1.1 The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.
- 4.1.2 No performance audit studies were identified by Audit Scotland for the College during 2007/08.

Strategic Plan

- 4.1.3 The College's Strategic Development Plan was updated for the period 2008/09 to 2010/11, incorporating strategic aims established by the Board at its meeting on 15 January 2008. Further discussion took place at the Board Residential Event in February 2008 and the plan was subsequently adopted. During 2007/08 the College also published a Business Plan 2008, summarising the Strategic Development Plan 2007/10 and providing an overview of the College's strategic aims and main developments over the planning period.
- 4.1.4 The College also prepares an Operational Plan each year. Although the Board of Management has established a clear separation between the Board's governance role and the management role of the College's executive, the Board considered pertinent matters for inclusion in the 2008/09 plan at its meeting in June 2008. These included matters relating to the conduct of business by the Board and its committees; monitoring of the achievement of aims and objectives; and compliance with obligations set by central authorities.

Risk Management

- 4.1.5 The College has a Risk Management Policy in place, which was last updated in June 2006. The College's Risk Register was reviewed by the Senior Management Team in May 2008 and updated to reflect the current assessment of the strategic and operational risks faced by the College.
- 4.1.6 As part of their programme of work for 2007/08 internal audit reviewed the College's risk management arrangements and concluded that the systems and procedures used by the College are 'strong' in this area.

Performance management

- 4.1.7 The Board of Management receives regular reports on its performance in the form of Performance Indicators, covering a number of areas, including course provision and HR. Regular reports are presented to the Course Provision and Student Service Committee and the Human Resources Committee. Use is made of benchmarking data available for the Further Education sector in assessing the College's performance.
- 4.1.8 An Interim Review of Achievements in relation to the Strategic Development Plan 2007/10 was reported to the Board in December 2007 to enable the Board to consider progress made with Strategic Aim A relating to governance and management.



Performance

Self Evaluation

- 4.1.9 The College's Board carried out a self-evaluation in 2007/08 following an established framework to evaluate its performance in three key areas: governance, strategic planning and monitoring. Group discussions in each of these areas were held at the Board's Residential Event in February 2008 and it was resolved to rate the Board's performance against all three as 'very good'. The records of discussions that took place in the groups were consolidated into a final draft for consideration by the Board. The Chair of the Board also held meeting with members on an individual basis.

Financial management

- 4.1.10 The College has enhanced its budget monitoring during 2007/08 with a change to the budget cycle and earlier production of the financial reports. The Senior Management Team is now more fully briefed on the position against budget, including regular presentations by staff from the Business Office. The format of the monthly management accounts includes a commentary on variances against budget for income and expenditure account, balance sheet and cash flow figures.
- 4.1.11 The Finance and General Purposes Committee monitor performance against the College's approved annual revenue and capital budgets. The Committee receives a paper at each meeting providing a commentary on the forecast financial outturn position for the College for the financial year in the format used for the management accounts.
- 4.1.12 The Finance and General Purposes Committee also receives a report at each meeting providing information on the initial projection of the level of student activity in the academic year. Forecast WSUMs figures are provided for each Academic Sector and Non-Sector Teams.

Efficient Government Initiative (EGI)

- 4.1.13 The College submitted updated EGI information schedules to the SFC in November 2008. The first showed the actual outturn against the six potential time releasing and cash releasing savings forecast for the period 2005/06 to 2007/08. This showed that the College delivered savings totalling £1.664 million over the period, with the largest element being savings of £0.930 million resulting from the appointment of a contractor to deliver refectory services to students and staff. Other significant savings over the period were generated from standardisation of processes in teaching departments for managing student records / admin (£0.180 million); adopting a system of open enrolment (£0.186 million); and improved IT solutions facilitating a greater degree of automated applications (£0.299 million). The College also submitted a forecast for the period 2008/09 to 2010/11 showing total projected savings of £4.929 million, the main element being generated from anticipated increased efficiency in deployment of permanent teaching staff; and lower temporary teaching staff costs arising from increasing use of new technologies and approaches.

Value for Money

- 4.1.14 The College has a VFM policy setting out the objectives and responsibilities for securing value for money and this was reviewed in March 2008 by the Finance and General Purposes Committee. SFC benchmarking has confirmed the College has low unit costs of operation. The College's benchmarking activities help identify possible areas for improvement action.



Financial Statements

5.1 Audit Opinion

5.1.1 On 15 December 2008 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008 and on the regularity of the financial transactions reflected in those financial statements.

5.2 Audit Completion

5.2.1 An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 3 the three key elements of the audit process.

Table 3: Key elements of the audit process

Completeness of draft financial statements

A set of draft financial statements was received at the start of the final audit visit. These were of a high standard and required minimal presentational changes as part of the audit process.

Quality of supporting working papers

In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. A full set of supporting working papers were provided in line with this list from the outset of the audit and were of a suitably high standard.

Response to audit queries

We are pleased to note that all audit queries were dealt with in a timely manner.

5.3 Audit Adjustments and Confirmation

5.3.1 In table 4 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process, followed by confirmation of our independence.

Table 4: Audit adjustments

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
SFC grant income		175		
Accrued income			175	
Deferred income			350	
Other income		350		
Legal fees	20			
Irrecoverable VAT	3			
Prepayments				23
Deferred capital grants			525	
Deferred income				525
Land & Buildings – Cost / Val			787	
Land & Buildings – Agg Depn			2,020	
Revaluation Reserve				2,807
	23	525	3,857	3,355
	=====	=====	=====	=====

5.3.2 In addition, a number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.



Financial Statements

5.3 Audit Adjustments and Confirmation (Cont'd)

Confirmations and Representations

- 5.3.2 We confirm that as at 12 December 2008, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired. Appendix I provides a copy of the letter issued to the Audit Committee.
- 5.3.3 In accordance with auditing standards, we obtained representations from the College on material issues.



Appendix I - Confirmation of Independence

To: Aberdeen College and the Auditor General for Scotland

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on Henderson Loggie's independence and the objectivity of the audit team. This statement is intended to comply with this obligation.

We have considered the fees paid to us by Audit Scotland and the College for professional services provided by us during the reporting period.

We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

Henderson Loggie is committed to being and being seen to be independent. As part of our ethics and independence policies, all Henderson Loggie staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings or interests. Our Ethics and independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;

risk management; and

independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the College / audit committee.

Confirmation of Audit Independence

We confirm that as at 12 December 2008, in our professional judgement, Henderson Loggie is independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner and audit staff is not impaired.

This report is intended solely for the information of the College and audit committee of Aberdeen College and should not be used for any other purposes.

Yours faithfully

Henderson Loggie

