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EDINBURGH AND GLASGOW

The Adam Smith College, Fife

Annual Report to the Board of Management and the Auditor General for Scotland 2007/08

10 December 2008

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Executive Summary

Finance

Our audit of the Adam Smith College, Fife is now complete and our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified. The College reported a surplus of £86,000 in 2007/08 after a gain on sale of property of £49,000. The College had originally budgeted for a surplus of £765,000 and the variance of £679,000 is mainly due to:

- The revaluation of the College's STSS early retirement provision of £374,000 which is charged to the Income and Expenditure Account. The College applied the Scottish Funding Council's updated expected life tables and discount rates and this resulted in the additional expenditure. The updated guidance did not become available until late in the financial year and the additional expenditure was unexpected. This additional expenditure did not affect the College's cash flow.
- A reduction in European income due to an historical overstatement of debtors of £106,000. These debtors related to European grants which covered a number of years and the overstatement, which was corrected as part of the financial statements preparation process, has been attributed to poor reconciliation procedures between the records of the European funding department and the finance department.
- An exceptional restructuring charge of £186,000 resulting from changes made to the College's management structure.
- The impact of an early pay award to staff in May 2008 of £150,000. This enabled the College to secure a two year pay settlement that will finish in July 2010.

The College is financially secure and the Balance Sheet as at 31 July 2008 is showing net assets of £45.33m including bank and cash of £9.15m. The College is forecasting surpluses between 2008/09 and 2010/11 in its latest Financial Forecast Return (FFR) submitted to the SFC.

The College has started to implement elements of its Estates Strategy and incurred capital costs of £1,078,000 during 2007/08. This is shown within the Assets Under Construction in the tangible fixed assets note. This relates to the new heating and ventilation system at the Nairn campus and also the initial professional fees in relation to the new build at the Stenton campus.

Other than the issue noted above in relation to European debtors, we are pleased to report that we did not identify any major control weaknesses during our audit of the accounting systems. In our opinion, internal controls at the College are generally well designed and operating effectively.

Governance

The College's Corporate Governance Statement confirms that the College has been fully compliant with the key principles of the 2006 Combined Code on Corporate Governance during 2007/08. We have reviewed the College's statement and can confirm that this is in line with the Scottish Funding Council's guidance and is not inconsistent with the findings from our audit.

We did not identify any significant areas of concern from our review of the College's corporate governance arrangements in so far as they relate to prevention and detection of fraud and irregularity or standards of conduct and prevention and detection of corruption. Our findings are consistent with the recent internal audit review of Corporate Governance arrangements at the College.

Conclusion

This report concludes the 2007/08 audit of the Adam Smith College, Fife. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Vice Principal (Resources). We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff
10 December 2008

Introduction

1. This report summarises the findings from our 2007/08 audit of the Adam Smith College, Fife. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 4 June 2008. The main focus of our external audit has been on the financial statements and governance arrangements.

2. Our plan summarised the following key audit issues for 2007/08:

   - Estates
   - European grants
   - Operating and Financial Review
   - Fife Council Pension Fund liabilities
   - Early retirement provision
   - Interim revaluation
   - Combined Code on Corporate Governance 2006
   - Cadham premises
   - VAT on St Brycedale campus.

3. This report includes our findings in relation to these key issues. This report also includes a follow-up of issues identified during our previous audit as well as issues which will be affecting our audit in future years.

4. This report will be submitted to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Finance

5. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and also to consider the College's governance arrangements in relation to the College's financial position.

Auditors' opinion

6. We are required to give an opinion as to whether the financial statements present a true and fair view of the financial position of the College as at 31 July 2008 and of its expenditure and income for the financial year. We are also required to include a regularity assertion in our audit report stating whether, in all material respects, expenditure and income were incurred or applied for their intended purposes and in accordance with guidance issued by the Scottish Ministers and the financial memorandum with Scottish Funding Council (SFC).

7. Our audit is now complete and we have issued an unqualified audit opinion on the truth and fairness of the financial statements and on the regularity of transactions.

8. We will now submit the signed financial statements to Audit Scotland who will pass them to the Scottish Government for laying before the Scottish Parliament.

Financial position

9. The College is reporting a surplus for the year to 31 July 2008 of £86,000 after a gain on disposal of the Cadham premises of £49,000. The College's original budget for 2007/08 forecast a surplus of £765,000. This was also the forecast surplus reported to the SFC in the College's 2007 Financial Forecast Return (FFR). A reconciliation between the forecast surplus and the actual surplus is set out below:

	£
Actual surplus per financial statements	**86,000**
Significant items during year:	
Revaluation of SSTS early retirement provision	(374,000)
Reversal of previous overstatement of European debtors	(106,000)
Exceptional staff restructuring costs	(186,000)
Staff pay award	(150,000)
Surplus per initial budget	**765,000**
Variance from original budget	**679,000**
Variance as percentage of total income	**2%**

10. The College bases its estimates of its Scottish Teachers Superannuation Scheme (STSS) early retirement liabilities on the SFC's life expectancy tables and recommended discount rates. The SFC issues updated guidance every year. The SFC's 2007/08 guidance increased the life expectancies and also decreased the discount rate. This resulted in additional expenditure to the Income and Expenditure Account of £374,000. The SFC did not issue its latest guidance until August 2008 and the additional expenditure was not expected. The additional expenditure does not have any cash flow implications.

11. The current round of European funding came to an end in 2007/08 and the College identified a number of discrepancies between its European debtors and the actual money received which led to a reduction in European income of £106,000. The European debtors related to grants which covered a number of years and the overstatement was not previously identified due to weaknesses in the reconciliation processes between the records of the European department and the finance department. Whilst reconciliations were being performed, they were not performed in sufficient detail. The number of European grants and level of funding has reduced going forward and therefore the risk of a similar issue arising has also decreased. The College plans to improve its reconciliation procedures to ensure that any income recognised is accurate and genuinely recoverable. The College should ensure that these reconciliations are performed in sufficient detail.

Action plan – 1

12. In addition to the unexpected costs above, the College also incurred additional staff costs during the year. These included exceptional restructuring costs of £186,000 including £64,000 in early retirement costs. The College also incurred additional costs of approximately £150,000 due to the early pay award in May 2008. This enabled the College to secure a two year pay settlement that will finish in July 2010.

Balance Sheet

13. The College is showing a healthy Balance Sheet at the year-end with net assets of £45.33m. The group's net assets have increased by £7.98m during the year, primarily due to the surplus of £8.8m on revaluation of land and buildings. The College has £9.15m in bank and cash and its net current assets stand at £5.46m.

Estates

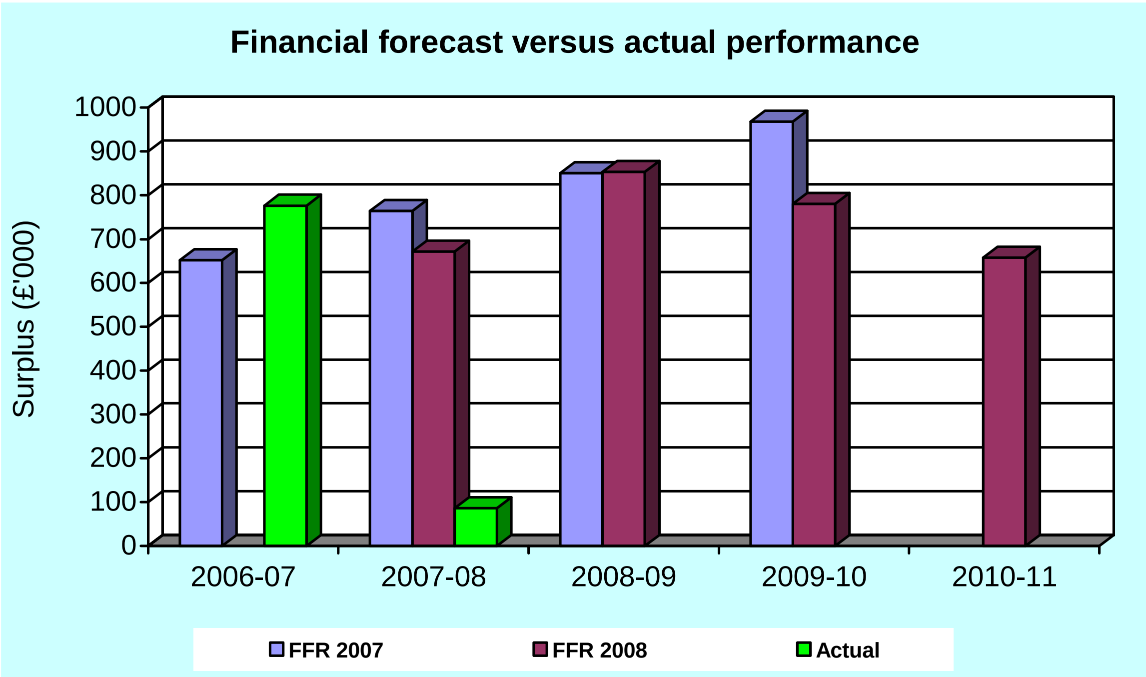
14. The College approved its Estates Strategy in December 2007 and began work on the new Engineering, Construction and Science Centre at the Stenton campus and the upgrade to the heating and ventilation system at the Nairn campus during the year. The total cost of the new building at Stenton is expected to be £16m and the College plans to fund this through its own resources as well as bank loans due to restricted availability of future SFC funding. The College is currently tendering for banking services for the new development. Professional fees of £312,000 were incurred during the year. The College also incurred costs of £766,000 with the upgrade of the heating and ventilation system at the Nairn campus which was funded through

SFC capital grants. These two projects are shown within Assets Under Construction of £1,078,000 in Note 12 to the financial statements.

Financial forecasts

15. The College submits annual Financial Forecast Returns (FFRs) to SFC detailing the expected results for the current year and the next three years. SFC uses the FFRs to assess the financial performance of individual colleges and of the sector as a whole.

16. The graph below compares the actual results for 2007/08 with the FFR forecasts and shows the latest predictions within the 2008 FFR. The surpluses in the table include any gains on disposal of assets but exclude transfers from revaluation reserves.



17. As shown above, the College is expecting to make surpluses between 2008/09 and 2010/11. The College has a long-term target of achieving a surplus of 3% of its total income but is not expected to meet this target within the next three years. The College includes a finance section with a three year forecast in its 2008-2011 Corporate Plan and the forecast is consistent with the College's 2008 FFR. The plan also includes forecast balance sheets and this is linked to the College's Estates Strategy.

Financial planning and monitoring arrangements

18. The College has a responsibility to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the College's financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such

arrangements are adequate in order to properly control the College's operations and use of resources.

19. Budgets are devised and approved at the start of the year and updated during the year to take account of new information. The Board has a Finance Committee which meets six times a year. Management accounts showing forecast year end positions against budget are presented to each Finance Committee.

20. In our opinion the College generally has effective financial management arrangements in place.

Financial reporting framework

21. The principal elements of the financial reporting framework which the College is required to comply with are:

    - Accounts Direction issued by the Scottish Funding Council
    - Further Education / Higher Education Statement of Recommended Practice (FE/HE SORP) 2007

FE/HE SORP 2007

22. A revised SORP was issued in July 2007 and was applicable for the first time to the College's 2007/08 financial statements. The main impacts of the application of the revised SORP on the College's financial statement were:

    - The Board of Management Report has been extended to meet the requirements of an Operating & Financial Review which includes more detailed analysis of the College's financial and non-financial performance.
    - Changes in the required disclosure of defined benefits pension schemes. The new disclosures are shown in Note 29 to the financial statements.
    - Removal of designated funds from the primary financial statements and the notes to the financial statements. This resulted in a prior year adjustment to the financial statements as shown in Note 38.

23. We are pleased to confirm that the College's 2007/08 financial statements comply fully with the Accounts Direction and FE/HE SORP 2007 in all material aspects.

Financial statements preparation

24. We are grateful to the Vice Principal (Resources), Finance Manager (Financial Accounting and Co-ordination) and the finance staff for their assistance and support during the course of the audit. We found the draft financial statements and supporting working papers to be of a very high standard. We appreciate that it was a difficult year for the finance team due to the late identification of the issue with the European grants as well as the introduction of PECOS ordering system at the same time. We are pleased to report that this did not unduly delay the audit process.

25. In addition, we found that the College had adequate resource available in the Finance Department to ensure it meets the College's financial management and reporting needs going forward.

Adjustments during the audit

26. Other than the adjustment in relation to the European grant debtors, the only other significant adjustment was in relation to liabilities in the Fife Council Pension Fund arising from early retirements. The College had previously accounted for these liabilities as part of pension liabilities. However, Financial Reporting Standard 17: *Retirement Benefits* (FRS 17) does not apply to early retirement liabilities as these have not arisen in exchange for services rendered. The College has reclassified these liabilities as provisions through a prior year adjustment to reflect the change in accounting policy. This is shown in Note 38 to the financial statements.

27. Our other adjustments related to presentational and disclosure adjustments. All of our proposed adjustments were processed and there were no unadjusted misstatements.

Review of accounting systems

28. One of the objectives of our audit was to review the accounting systems and internal controls operating at the College to ensure they formed an adequate basis for the preparation of the financial statements.

29. In addition to the issue relating to European debtors, we identified one further minor issue in relation to asset verification, which is set out in the action plan.

Action plan – 2

30. Other than these issues we identified no control weaknesses during our audit of the accounting systems. In general, the College's systems of internal control appear to be adequate, well designed and operating effectively.

31. The College was in the process of implementing the Professional Electronic Commerce Online System (PECOS) during the year-end audit. This is an electronic ordering system which is expected to deliver efficiency savings. We will consider the new system during our 2008/09 audit.

Other issues arising from the audit

32. In order to assist College members' understanding of the financial statements and our audit, we have summarised the issues below that we believe are of particular significance in 2007/08.

Group financial statements

33. The College has a 100% controlling interest in the Adam Smith Enterprise and Education Foundation ('ASEEF'). ASEEF is consolidated within the College's 2007/08 financial statements. We do not consider ASEEF's results and financial position at the balance sheet date to be material to the group financial statements.

Fife Council Pension Fund liabilities

34. The College's employees belong to two principal defined benefit pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) for the teaching staff and the Fife Council Pension Fund (FCPF) for the non-teaching staff.

35. The STSS is a multi-employer, notionally funded scheme and therefore the employers within the scheme are unable to identify their share of the underlying assets and liabilities of the scheme. In line with Financial Reporting Standard 17 – *Retirement Benefits* (FRS 17), the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

36. The Fife Council Pension Fund is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in its balance sheet. The College reported a liability of £2.3m as at 31 July 2008, an increase of £1.2m from the previous year. The increase in the liability is mainly due to a lower than expected return on the College's pension assets during the year. This was partially offset with a reduction in the College's pension liabilities due to changes in actuarial assumptions.

37. We have reviewed the College's accounting for the pension liability and ensured that it complies with the requirements of FRS 17 and the new FE/HE SORP and that its disclosure is consistent with the actuaries' valuation.

Interim revaluation

38. Financial Reporting Standard 15: *Tangible Fixed Assets* (FRS 15) requires the College, where it has adopted a revaluation policy, to obtain a full revaluation every five years, with an interim valuation in year three. The College's estate was fully revalued on the merger on 1 August 2005 and was subject to an interim valuation as at 31 July 2008. This resulted in a revaluation gain of £8.842m as shown in the Statement of Total Recognised Gains and Losses (STRGL) and Note 21 to the financial statements.

39. We are pleased to confirm that the revaluation has been adequately recorded in the financial statements and that it complies with the requirements of FRS 15.

Gain on sale of Cadham premises

40. The College leased premises at Cadham for a number of years. The lease agreement provided the College with an option to purchase the property at any time. The College arranged a buyer for the property and bought and sold the property on 31 August 2007 generating a gain on the disposal of £49,000.

41. We confirmed that the transactions had been accounted for correctly and that the subsequent gain on disposal has been satisfactorily disclosed in the financial statements

VAT on St Brycedale campus

42. The College has applied to HM Revenue & Customs for the Lennartz mechanism to be applied retrospectively to the St Brycedale campus redevelopment which was completed in 2004/05. If accepted by HM Revenue & Customs, this would result in the College recovering the VAT on the campus works and repaying the VAT over a period agreed with HM Revenue & Customs.

43. During our audit of the College we confirmed that no correspondence had been received from HM Revenue & Customs and as a result we identified no implications for the financial statements.

APUC

44. APUC (Advanced Procurement for Universities and Colleges) Ltd was established in response to the McClelland report – *Review of Public Procurement in Scotland*. The College is looking to benefit financially from APUC but is also looking for general improvement in the procurement systems. The College had been one of the pilot schemes and is now a ‘Pathfinder’ for APUC. The College has 110 staff trained on the new Electronic Procurement System (EPS) and 130 suppliers and is looking to have all procurement carried out through the EPS system.

Loss of charitable status

45. The Office of the Scottish Charity Regulator (OSCR) previously published the results of the pilot scheme to review charitable status of a selection of charities including John Wheatley College in Glasgow. OSCR concluded that the charity test was not met because of the ability of Scottish Ministers to direct or otherwise curtail the College’s activities. The Scottish Government has since announced its intention to protect the charitable status of Scottish FE Colleges and an order has been laid before the Scottish Parliament to this effect.

Governance

46. It is the College's responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:

- the College's review of its systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and other irregularities;
- standards of conduct and arrangements for the prevention and detection of corruption;
- the College's financial position.

47. We reported on the College's financial position in the Finance section of this report. This section includes our comments on other aspects of the College's governance arrangements.

Corporate Governance Statement

48. Colleges are required to include in their financial statements a statement covering the responsibilities of their board of management in relation corporate governance arrangements. The statement should describe the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and report on the College's compliance with the Combined Code on Corporate Governance.

49. The College's Corporate Governance Statement for 2007/08 explains that the College was fully compliant with the 2006 Combined Code throughout the period. The College's statement did not highlight any significant control weaknesses.

50. We reviewed the Corporate Governance Statement by:

- checking the statement against SFC guidance;
- considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control;
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

51. We are satisfied that the statement is consistent with the SFC's guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Combined Code 2006

52. A revised Combined Code on Corporate Governance was issued in June 2006, which superseded the Code issued in 2003. The Combined Code 2006 is applicable for reporting years beginning on or after 1 November 2006 and therefore the College has stated compliance with the 2006 code for the first time in its 2007/08 financial statements.

53. We recommended in our 2006/07 Annual Report that the College reviews its corporate governance arrangements against the 2006 code and are pleased to report that the College

performed this assessment during the year and that the results were presented to the Board of Management in June 2008. No areas of non-compliance were identified.

54. Internal audit also conducted a review of Corporate Governance arrangements during the year. Internal audit concluded that, overall, the College has a sound governance framework in place.

Corporate planning

55. The College finalised its new Corporate Plan 2008-11 during the year. This sets out the College's strategic objectives for the period around the three areas of development:

- the provision of 21st Century learning
- the provision of 21st Century workforce
- the provision of 21st Century college.

56. The Corporate Plan has clear links to the finance and capital plans as well as risk management arrangements.

Risk management

57. Risk management is important to the establishment and regular review of systems of internal control. We review the College's risk management arrangements as part of our audit work on corporate governance.

58. The College has a Risk Management Policy and Risk Management Procedures in place and these were approved in 2005/06. The College risk register is maintained by the Director of Corporate Services, who along with senior management is responsible for reviewing and updating the risk register on a monthly basis. Changes to the action plan and risk register are reported to the Audit Committee at quarterly meetings. Following discussion at the Audit Committee the report is presented at the next Board of Management meeting. The risk register was updated during the year to align it with the Corporate Plan 2008-11.

59. We have concluded that the College appears to have robust risk management systems in place.

Internal audit

60. Internal audit is a key component of the College's corporate governance arrangements. The College's internal audit service is provided by Chiene and Tait. In the previous year we undertook a review of the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and performed in accordance with the Code of Audit Practice. The review concluded that the internal audit service provided to the College was in compliance with the SFC's Code of Audit Practice.

61. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate. During 2007/08 we have reviewed the following internal audit reports:

- Revenue Management – Tuition fees
- Data Protection Act
- Corporate Governance
- Outsource Contracts Management
- Treasury Management & Banking
- Follow-up.

62. We considered the results from these reports on our own risk assessments.

Internal audit's conclusion

63. Internal audit has concluded in its annual report that management has substantial assurance that the internal controls and governance frameworks which it operates are sufficient to ensure the effective and efficient operation of the organisation.

64. We are grateful to Chiene and Tait for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

65. We are required to consider the arrangements made by management for the prevention and detection of fraud and irregularity. Fraud is defined as deception made for personal gain and irregularity is defined as transactions which do not comply with Scottish Ministers guidance.

66. The College has a fraud prevention policy (including fraud response plan) and whistle blowing policy in place. The College has identified a fraud liaison officer and a whistle-blowing officer. There were no frauds identified during the year.

67. All SFC and other guidance and regulations are received by the Principal's secretary. All relevant regulatory information is distributed to the appropriate members of staff. A database is held of all SFC circulars and responsible officers. All relevant guidance is presented to the Board of Management meetings ensuring that all those concerned have access to adequate and relevant information.

68. We are pleased to report that we identified no issues of concern in relation to the arrangements for the prevention and detection of fraud or with regard to the legality of transactions.

Standards of conduct

69. We are required to consider the arrangements made by management in relation to standards of conduct and prevention and detection of corruption.

70. Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff,

letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the Scottish Government.

71. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over ordering and procurement and disposal of assets.

72. Internal audit identified that the College's registers of interest were not updated on an annual basis and recommended that they were. We concur with internal audit's recommendation. Other than this issue, we are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

Looking Forward

73. In this section, we highlight some recent or emerging issues that are likely to impact on our next year's audit.

Financial position

74. The SFC has provided significant increases in funding to the Scottish Further Education sector in the past decade. The Spending Review and indications from the Scottish Government are that there will be no further significant increases. In addition to this the College will have reduced European grant income. Coupled with increasing cost pressures this will result in limited financial resources for the Further Education sector.

Estates Strategy

75. The College has a significant capital development programme which will also impact on its financial resources in the coming years. These factors have been included within the College's financial forecasts which indicate a healthy financial position. We will review the College's implementation of its Estate Strategy and the impact on its resources in 2008/09.

Combined Code 2008

76. The Financial Reporting Council (FRC) issued an updated Combined Code in June 2008. The updated code is applicable to accounting periods beginning on or after 28 June 2008. The updated code includes two amendments from the 2006 code. The first amendment is in relation to FTSE 100 companies and does not apply to the College. The second amendment is to allow the Chairman to be a member, but not chair, the Audit Committee where the Chairman was considered independent on appointment. The College's 2008/09 Corporate Governance Statement should state compliance with the 2008 code. We will determine whether the College has complied with the combined code 2008 as part of our 2008/09 audit.

Action plan – 3

Appendix 1 – Action Plan

77. Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2007/08. These are the issues that we believe need to be brought to the attention of the College.

78. It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Priority rating

79. To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action.
Priority 2	Medium risk, significant observations requiring reasonably urgent action.
Priority 3	Low risk, minor observations which require action.

Issues from our 2007/08 audit

Action point	Para ref	Issue identified and recommendation	Management response
1	11	**European income** The College identified weaknesses in the management systems in place over the European projects and that there were inconsistencies between the records of the European funding department and the finance department. The College plans to improve its reconciliation procedures to ensure that any income recognised is accurate and genuinely recoverable. We recommend that the College ensure that these reconciliations are performed. ***Priority 2***	Agreed. ***To be actioned by:*** Finance Manager – Financial Accounting and Co-ordination ***No later than:*** Immediate

Action point	Para ref	Issue identified and recommendation	Management response
2	29	**Fixed asset verification** There has been no fixed asset verification exercise conducted during the year. There is a risk that the financial records do not reflect the underlying assets. The College should conduct an annual verification exercise covering all material fixed assets on a cyclical basis to confirm that assets recorded in the asset register and subsequently disclosed in the financial statements are physically held by the College and have not been impaired. ***Priority 2***	Agreed. ***To be actioned by:*** Finance Manager – Financial Accounting and Co-ordination ***No later than:*** Ongoing commencing January 2009
3	76	**Combined Code 2008** A revised Combined Code on Corporate Governance was issued in 2008, which supersedes the Code issued in 2006. We recommend that the College updates its self-assessment to reflect the requirements of the new code. ***Priority 3***	Agreed. ***To be actioned by:*** Vice Principal (Resources) ***No later than:*** March 2009

Follow-up of issues from previous external audit

Follow-up point	Original recommendation and management response	Update at December 2008
5.2.1 **Combined Code 2006**	We recommended that the College perform a self-assessment against the 2006 Code in preparation for making its Corporate Governance Statement in its 2007/08 annual accounts. ***Priority 2*** **Management Response:** Agreed. ***Responsible Officer:*** Vice Principal (Resources) ***Implementation Date:*** July 2008	The College performed a review of the main principles of the Combined Code on Corporate Governance. This was presented to the Board in June 2008 to confirm the College's compliance with the Code. ***Action taken as agreed***
5.2.2 **FE/HE SORP 2007**	To minimise disruption during the year end accounts process, we recommended that the College prepare its OFR in advance of the 2007/08 accounts preparation process. ***Priority 2*** **Management Response:** Agreed. ***Responsible Officer:*** Vice Principal (Resources) ***Implementation Date:*** July 2008	Operating and Financial Review had been prepared in advance of our final audit visit. ***Action taken as agreed***
5.2.3 **Document management**	We experienced difficulties obtaining a copy of the College's fraud response plan and recommended that the College create a central log of policies and procedures. ***Priority 2*** **Management Response:** Agreed. ***Responsible Officer:*** Secretary to the Board of Management ***Implementation Date:*** TBC	The College has an online site which contains all relevant policies and procedures for both staff and students. The College's fraud response plan is outlined within the Fraud Prevention Policy. We obtained a copy for audit review and found it to be satisfactory. ***Action taken as agreed***

Follow-up point	Original recommendation and management response	Update at December 2008
5.2.4 **Mail income**	We noted that income received by mail is collected, counted, recorded and stored by one person. We recommended that another employee is involved in the receipting of mail income. ***Priority 3*** **Management Response:** Under consideration by the Finance Committee of the Board of Management. ***Responsible Officer:*** Vice Principal (Resources) ***Implementation Date:*** To be informed.	We reviewed the mail procedures during the year and confirmed that two people are now involved in the process. ***Action taken as agreed***
5.2.5 **Invoice log**	Where invoices are received and an order has not been previously raised, the invoice is passed to the relevant budget holder for approval. Finance does not retain a register of invoices sent to budget holders for approval. We recommended that the College prepare a register of all invoices received which are passed to budget holders for approval. ***Priority 3*** **Management Response:** Agreed. ***Responsible Officer:*** Vice Principal (Resources) ***Implementation Date:*** January 2008	This issue remains outstanding, primarily due to the introduction of the new PECOS ordering system and the College hopes that this system will address this risk in future years. ***Outstanding*** ***Updated management response:*** Agreed. ***To be actioned by:*** Vice Principal (Resources) ***No later than:*** 31 July 2009

Follow-up point	Original recommendation and management response	Update at December 2008
5.2.6 **Petty cash counts**	There was no evidence held to support petty cash balances which are included in the College's bank and cash figure in the 2006/07 annual accounts. We recommended that the Finance Manager should ensure all officers responsible for petty cash accounts provide adequate evidence of balances held. These balances should be verified by an independent person. This evidence should be retained as evidence for the final accounts. ***Priority 3*** **Management Response:** Agreed. ***Responsible Officer:*** Vice Principal (Resources) ***Implementation Date:*** January 2008	We confirmed through our annual review of the cash and banking arrangements at the College that petty cash reconciliations are now performed. ***Action taken as agreed***

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