Dundee College

Annual Report for the Year Ended 31 July 2008
To the Board of Management and the Auditor General for Scotland

Tenon audit

5 Kings Place
Perth
PH2 8AA

Issued 5 December 2008

CONTENTS **Page**

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

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

1 EXECUTIVE SUMMARY

1.1 Financial Review

- The college had a deficit of £1.3m in the year, after exceptional staffing costs of £1.6m relating to a Voluntary Severance Scheme. This compared to surplus of £1.3m in the previous year before exceptional costs of £6.3m.
- The exceptional cost of £6.3m in the previous year arose from impairment of properties earmarked for disposal.
- The college continues to maintain a healthy balance sheet with net assets of £27m.
- The budget for 2008-09 predicts a small operating deficit.
- The Scottish Funding College have confirmed in principle the funding for the plans to refurbish the Gardyne Campus.

1.2 Financial statements

- We have issued a qualified audit opinion on the accounts of Dundee College for the year ended 31 July 2008 in the format of an 'except for' qualification which states that with the exception of the treatment in the accounts of the Local Government Pension Scheme (Tayside), the financial statements provide a true and fair view. A copy of our audit report is appended to this report.
- There were no audit adjustments required to the draft financial statements.
- Dundee College have chosen not to fully comply with the accounting and disclosure requirements of FRS17 and this has therefore resulted in a qualified audit opinion.

1.3 Corporate Governance

In our second year of appointment we have carried out an overall review of Corporate Governance arrangements, and have no specific recommendations. There appears to be a good system of Corporate Governance in place.

1.4 Action Plan

Our only recommendation relates to achieving full compliance with FRS17.

2 INTRODUCTION

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

2.1 ***Our audit of The Dundee College for the year ended 31 July 2008 has been carried out in accordance with statutory requirements and follows the practices prescribed by the Code of Audit Practice and guidance issued by the Auditing Practices Board (APB). The Code of Audit Practice sets out fully the responsibilities of the College and its officers in relation to financial probity, control, preparation of accounts and the achievement of value for money in the provision of services. We are required under the Code to give an independent assessment of how the College has discharged its stewardship of public funds. A summary of our responsibilities is contained in Appendix 2.***

2.2 ***We have summarised the Key Issues arising from our audit in Section One. In providing the summary, it can be difficult to strike a balance between recognising good performance when achieved and highlighting scope for improvement. The items referred to represent Key Issues for management attention and should not be taken out of the context of the remainder of this report, or the detailed reports covering individual reviews.***

2.3 **We invite Dundee College to receive this report and consider the recommendations we have made.**

2.4 **We would be grateful to receive the College's response to the issues we have raised.**

3 FINANCIAL REVIEW

3.1 Introduction

The purpose of the financial review is to consider the general financial standing of Dundee College by looking back at financial performance in 2007/08 and to look ahead to the future financial position. Our review is aimed at helping College members understand the financial position of Dundee College at a particular point in time. It should not be regarded as definitive or comprehensive and the College should not seek to rely on this summary in isolation.

3.2 Financial Performance 2007-08

The financial statements reflect a deficit for the year of £1.3m (previous year surplus of £1.3m). This compares to the budget deficit of £1m. The main movements are summarised below:

	Budget **£m**	**Actual** **£m**	**Variance** **£m**
Funding College Grants	21.4	21.4	Nil
Tuition Fees & education contracts	3.7	3.7	Nil
Other income	3.6	3.4	0.2
Staff costs	20.8	20.6	0.2
Other operating expenses	7.3	7.5	(0.2)
Depreciation	2	2	Nil

The college continues to maintain a healthy balance sheet position, with net assets of £27m including cash of £8.1m.

3.3 Reserves

The college maintained its general reserves at £7.4m (previous year - £7.6m). This is part of the longer term estates strategy of reconfiguration.

3.4 Financial Plan 2008-09

The forecast for 2008/09 predict a small deficit, mainly due to an increase in staff costs and a reduction in European grant income.

3.5 Capital expenditure plans

The College is in the process of consolidating its estates to the Kingsway and Gardyne campuses. As part of the plan, the College will dispose of the buildings at Constitution Road, Graham Street and Melrose Terrace.

The project is expected to be completed for the start of the 2011 academic term at a cost of £42.6m.

3.6 Recurrent grant allocation

The SFC has confirmed recurrent Grant income of £17.3m and Fee waiver initial grant of £2.5m for the year to 31 July 2009.

4 FINANCIAL STATEMENTS

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

4.2 Audit opinion

We have issued a qualified audit opinion on the accounts of Dundee College for the year ended 31 July 2008. The report takes the format of an 'except for' qualification whereby with the exclusion of non-compliance with FRS 17, the accounts are considered to provide a true and fair view. A copy of our audit opinion is attached to this report at Appendix 1.

4.3 Independence

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

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

4.4 Audit approach and materiality

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

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

- The level of materiality for making adjustments to the financial statements, as set out in the detailed planning memorandum, was calculated based on total income and the value of general reserves and was assessed at £275,000.

We are required to notify you of any potential adjustments identified during the course of our audit work unless they are clearly trifling. For the purposes of this report we have taken clearly trifling as being less than £2,750.

The following significant matters were discussed with management during the course of the audit. This includes the audit outcome of the key risks identified within our audit planning memorandum dated 23 July 2008.

4.5 Accounting policies and practices

In preparing the financial statements of the College, Members are required under FRS 18 to review the College's accounting policies on an annual basis to ensure they remain appropriate to the College's circumstances and are being properly applied.

- We have reviewed the accounting policies and practices selected by the College and are satisfied that the College operates acceptable accounting policies and practices for the purpose of determining whether the financial statements show a true and fair view with the exception of the policy utilised for FRS 17.

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

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

- **Pensions**

Financial Reporting standard 17 sets out requirements for accounting and disclosure in respect of pension schemes. Pensions schemes can generally be categorised into:-

- Defined contribution schemes – whereby the employer's obligation at any point in time is restricted to the amount of contributions payable.
- Defined benefits schemes – where the employee's entitlement to a pension is dependent upon factors such as final salary, length of service etc. The employer's obligation is therefore dependent on these factors, which cannot be readily determined.

All colleges in Scotland are members of the Scottish Teachers Superannuation Scheme (STSS) and the Local Government Pension Scheme (LGPS), which are both multi-employer defined benefit schemes. However, FRS17 allows employers who are members of multi-employer schemes, to account for these as defined contribution schemes (with additional disclosures) if "the employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis." There is general agreement that the STSS cannot separately identify each employer member's share of net assets and liabilities.

The position is less clear with regard to the LGPS. The College took the view therefore that this did not provide a "reasonable" basis and accounted for the scheme on a defined contribution basis. We have reviewed the evidence, made enquiries of Dundee College, the scheme actuaries, and consulted our technical department and concluded that based on the evidence available, the actuaries can actually identify on a reasonable and consistent basis, the College's share of assets and liabilities and therefore full compliance with FRS 17 is required. The College feels that the actuaries' basis is not reasonable and consistent and has therefore decided that full compliance will not be undertaken and as such due to this disagreement over accounting policy, we are required to issue a qualified audit report. We recommend that over the next year, detailed discussions are held with those who run the scheme with a view to reaching a situation where the College is satisfied that a reasonable estimate of assets and liabilities can be produced and incorporated into the accounts. We have included this recommendation in our action plan.

Each of the following issues were identified as risks in our original audit plan. This plan was revisited on receipt of the draft accounts, and no further significant risks were identified. The other risk areas identified in our plan were satisfactorily dealt with as follows:

e	it risks	ned audit approach	come
ognition of Funding College Income			
The audit of 2007/08 student activity data by Henderson Loggie may result in adjustments to the SUMS which may take the College below 97% threshold and leave them subject to clawback of these funds.	*Recurrent grant income may be overstated in the accounts.*	*Reconciliation to remittance advice from SFC and review the outcome of the student activity data audit.*	*Satisfactory*
income			
The College receives around £2m of ESF funding per year. The 2006/07 financial statements included provisions for items that the College had claimed within the bid but that the audits felt were not permitted by the terms.	*The audits of these grant claims may lead to funds being clawed back by the European Commission.* *Income from ESF projects may be overstated in the accounts.*	*Review of any audits of these projects carried out to date. For a sample of projects not audited as still in progress we will perform use of funds testing to ensure that the expenditure is in line with the terms of the grant.*	*sfactory*
orate Governance			

e	it risks	ned audit approach	come
Full compliance with corporate governance as set out by Audit Scotland.	*There is inadequate evidence available to support the disclosures within the financial statements*	*We will review internal audit work in this area.* *We will review the College's corporate governance arrangements to ensure that the minimum required evidence is available.*	*Satisfactory*
The College are planning to refurbish the Gardyne site and once this site has been occupied the College plans to sell the Constitution, Graham Street and Melrose campuses and consolidate onto two sites (Gardyne and Kingsway). The entire project is estimated to cost £40m, with £24m of SFC funding, £4m of borrowing and the remainder to come from disposal proceeds and the College's own cash reserves.	*The carrying value of the other sites may need to be adjusted to reflect the expected sales values of these sites (which could result in an impairment adjustment if the anticipated sales values are less than current book valuations)* *The College's financial viability may be affected by the focus on the build. There may not be adequate cash reserves to fund the entire project and borrowing costs may therefore be higher than expected.* *Approval for the project may be withheld which could affect the carrying value of the Gardyne site.*	*Review of property strategy and consideration of potential impact on accounts.* *Review of cash flow forecast and Financial Forecast Return (FFR)* *Review correspondence with SFC to ensure approval obtained by start of audit.*	*Satisfactory*

ADJUSTED AND UNADJUSTED ERRORS

4.6 Actual Audit Adjustments

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

	£'000
Surplus / (Deficit) per accounts presented for audit	(1,150)
Adjustments:	
SFC recurrent grant	(81)
Education contracts	29
Fees – UK & EU	29
Staff costs – academic	(47)
Other operating expenses (Agency)	(38)
Surplus / (Deficit) per final accounts	(1,258)

4.7 Potential Audit Adjustments

There were no unadjusted errors arising from our audit, other than those which were clearly trifling.

4.8 Accounting and financial control systems

The College produced high quality draft financial statements for our audit. This continues to reflect well on the professionalism of the finance staff and their commitment to maintaining robust financial systems.

We found that all aspects of the College's financial systems that were reviewed to be well controlled, providing a good basis for the preparation of accounts.

- The only areas of weakness identified during the audit that we wish to draw to your attention is the non-compliance with FRS 17 and the late issuing of invoices.

4.9 Regularity audit

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

CORPORATE GOVERNANCE

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

4.11 Statement on Corporate Governance

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

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

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

4.12 Risk Management

Although the term "Risk Management" has become relatively common recently, the underlying principles – of identifying and assessing risks and taking action to minimise their occurrence and impact, are well established. The College's Committee structure, Financial Regulations, and Internal Audit functions are all examples of policies and procedures which address potential risks. However, it is now generally recognised that this process needs to become explicitly established as part of a management culture, and requires the implementation of consistent best practice through formal policies and procedures. The College commissioned a Strategic risk report from consultants in March 2006 which produced a risk management strategy and risk register.

4.13 Internal Audit

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

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

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

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

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

In 2007/08 we placed reliance on assignments carried out by Internal Audit in the following areas:-

- SUMS audit and audit of FES returns
- Bursary, Hardship and Childcare funds audits

4.14 Systems of Internal Control

The respective responsibilities of the College and ourselves as auditors and a summary of the systems covered during the year, are set out at Appendix 2.

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

4.15 Other Governance responsibilities

Prevention and Detection of Fraud and Irregularities

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

The College also has in place a Fraud prevention policy and a complaints procedure.

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

Legality/Propriety

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

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

Standards of Conduct, Integrity and Openness

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

- A Register of Members' Interests
- Information regarding their appointment to outside bodies and organisations is disclosed in the financial statements.
- Freedom of information publication scheme

5 ACTION PLAN

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

	Subject	**Grade**
1	We recommend that discussions are held with those who run the LGPS scheme continue with a view to reaching a situation where the College is satisfied that a reasonable estimate of assets and liabilities can be produced and incorporated into the accounts.	**1**
2	Late invoicing	**3**

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

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

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

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

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

Issues noted

1	Pensions accounting		**Grade 1**
Issue The actuary for the LGPS has advised that they are able to estimate on a reasonable and consistent basis the share of the College's assets and liabilities. However, the College do not agree with the basis and therefore have decided not to undertake full compliance with FRS 17. However, based on the audit evidence that we have obtained, it is considered that the College should be fully complying with FRS 17 and therefore as the College has chosen not to comply, we have had to issue a qualified audit report.			
Recommendation Discussions with those who run the scheme should continue with a view to reaching a situation whereby the College are satisfied that a reasonable estimate of assets and liabilities can be produced and incorporated into the accounts.		*Management response* The College has written confirmation from the LGPS scheme actuary that there has been no fundamental change to the 'notional' allocation of the schemes assets and liabilities. This allocation is in keeping with previous years; and by accounting on a defined contribution basis in 2007/08, the College is consistent with previous years and previous audit opinions – including those received from Tenon in 2006/07 and Baker Tilly prior to this.	*Action by whom* *Assistant Principal & Director of Finance* *Deadline* *Ongoing review*

<table>
<tr><td>2</td><td colspan="2">Late invoicing</td><td>Grade 3</td></tr>
<tr><td colspan="4">Issue

There were invoices issued on 9 October totalling £29k which related to courses that had been provided in the year to 31 July 2008.</td></tr>
<tr><td colspan="2">Recommendation

Ensure that invoices are prepared and issued promptly.</td><td>Management response

Problem was restricted to Vocational Training Unit. Controls within that department will be reviewed and necessary corrective action implemented.</td><td>Action by whom

Finance & Systems Manager

Deadline

January 2009</td></tr>
</table>

Dundee College

Annual Report for the Year Ended 31 July 2008

Annexes for Management Information

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

We have audited the financial statements of Dundee College for the year ended 31 July 2008 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Board of Management, Principal and auditor

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

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

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

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2008; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we am aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.
We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Board of Management and the Statement of the Board of Management's Responsibilities for the Accounts .We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT THE APPLICATION OF FRS17: RETIREMENT BENEFITS

Financial statements

As explained more fully in note 21 to the financial statements, the Local Government Pension Scheme is a multi-employer defined benefit pension scheme. The College has applied the exemptions afforded in FRS 17 ("Retirement Benefits") in respect of multi-employer defined benefit pension schemes whose assets and liabilities cannot be split between the sponsoring employers on a fair and reasonable basis and treated the scheme as a defined contribution scheme in these financial statements. The schemes actuaries have expressed the opinion that the College's share of assets and liabilities can be identified on a fair and reasonable basis and in our opinion therefore the College is not entitled to apply the multi –employer exemption within FRS 17 and has therefore not correctly applied its provisions. Consequently the college should have obtained information from the actuary as regards any potential surplus or deficit in the pension scheme and reflected such surplus or deficit on the balance sheet and made the disclosures within the notes to the financial statements required by FRS 17.

Except for the financial effect of not accounting for the pension scheme as a defined benefit scheme and not making the disclosures required for such schemes by FRS 17 in our opinion the financial statements:

- give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2008 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and

- have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

Regularity

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2008; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

Tenon Audit Limited

5 Kings Place
Perth

PH2 8AA

Date

Our respective responsibilities

Financial Statements
It is the responsibility of the College to:-

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

We are required to give an opinion on:-

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

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

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

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

Three fundamental principles apply:-
- *Openness*
- *Integrity*
- *Accountability*

We have a responsibility to review and, where appropriate, report findings on the College's corporate governance arrangements as they relate to:-
- *The College's review of its systems of internal control including its reporting arrangements.*
- *The prevention and detection of fraud and irregularity.*
- *Standards of conduct and arrangements in relation to the prevention and detection of corruption.*
- *The financial position of the College.*

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

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

However, our work cannot cover every financial activity and accounting procedure. We plan and perform our audit to give reasonable assurance that the financial statements are free from material misstatement and that they comply with statutory and other requirements.

Risk Management
The College's Responsibility

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

The Role of Tenon Audit Limited

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

Systems of Internal Control

The College's Responsibility

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

Three components of a system of risk management are:-

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

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

The role of Tenon Audit Limited

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

Prevention and Detection of Fraud and Irregularities

The College's Responsibility

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

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

The Role of Tenon Audit Limited

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

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

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

Standards of Conduct, Integrity and Openness

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

The College's Responsibility

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

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

The Role of Tenon Audit Limited

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

Financial Position

The College's Responsibility

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

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

The Role of Tenon Audit Limited

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

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