

Inverness 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: 15 December 2008

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

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

1 EXECUTIVE SUMMARY

1.1 Financial Review

- The college achieved a surplus of £273,851 (previous year - surplus of £430,098)
- The college has once again improved its financial position during the year and continues to maintain a positive overall balance sheet with net assets of £20.8m. The college has also generated current assets of £217k in the year (previous year – current liabilities of £555k) and this is proof of the ongoing improvement of the financial management.
- The budget for 2008-09 predicts a surplus of £100,924.

1.2 Financial statements

- We have issued an unqualified audit opinion on the accounts of Inverness College for the year ended 31 July 2008.
- There have not been any adjustments required to the financial statements after completion of the audit work.

1.3 Corporate Governance

We have carried out an overall review of Corporate Governance arrangements, and have made a few recommendations with regards to the disclosure of corporate governance in the financial statements. From a review of the Corporate Governance arrangements, the college appears to have a strong system in place to comply with Corporate Governance requirements

1.4 Action Plan

In addition to the disclosure recommendations (which have now all been amended) in the financial statements, we make recommendations relating to capitalisation of equipment.

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 Inverness 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 Inverness 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 Inverness 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 Inverness 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 surplus for the year, of £273,851 (previous year – surplus of £430,098). This compares favourably to the budget of £108,000 surplus. The main movements are summarised below:

	Budget	Actual	Variance
	£000	£000	£000
Total SFC & UHI Millennium Grants	11,075	11,090	15
Tuition fees and education contracts	2,072	2,683	611
Other Income	1,491	1,704	213
Staff costs	10,406	10,239	167
Other operating expenses	3,422	4,081	(659)

The college continues to maintain a positive overall balance sheet position, with net assets of £20.8m including cash of £4.6m.

3.3 Reserves

The college income and expenditure reserve continues to be in deficit although the deficit has again decreased in the year. The deficit as at 31 July 2008 was - £2.2m, (previous year - £2.9m). The college also has a restricted reserve of £1.9m arising from the disposal of its Hedgefield property during the previous year. This is part of the longer term strategic plan, for reconfiguration of the college estate.

3.4 Financial Plan 2008-09

The forecast for 2008/09 predicts a surplus of £100,924.

3.5 Capital expenditure plans

Inverness College's operational plan for 2008-09 predicts significant capital expenditure principally due to the estates strategy and commencement of building a new college campus.

3.6 Recurrent grant allocation

The Scottish Funding Council (SFC) has confirmed recurrent Grant income of £7.3m and Fee waiver initial grant of £1.2m 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 an unqualified audit opinion on the accounts of Inverness College for the year ended 31 July 2008. 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 Timetable and procedures

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

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

We discussed plans for the preparation and audit of the accounts with the Director of Corporate Services in a series of meetings commencing in May 2008.

We are pleased to report that the audited accounts were submitted to the SFC and Audit Scotland by the due date of 31 December 2008. We are grateful to all of those in the Finance and other departments who helped to achieve this. Special thanks go the finance manager – Fiona Mustarde for her time and assistance throughout the audit process.

4.5 Audit approach and materiality

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

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

- The level of materiality for making adjustments to the financial statements, as set out in the detailed planning memorandum, was calculated based on total income and the value of general reserves and was assessed at £130,000.

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 £1,300.

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 7th May 2008.

4.6 Accounting policies and practices

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

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

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:

- **Going concern**

Due to recurring losses over a period of years, the college has accumulated deficits on their Income and Expenditure reserve of £2.3m (Previous year £2.9m). In previous years this has contributed to the college having an excess of current liabilities over current assets. However, due to the continuous and significant improvement in the financial management, the College has generated net current assets of £217k in the year (previous year – net current liabilities £555k). This is a much improved position, achieved through a combination of an operational surplus and a realisation of a gain on property in the previous year. Due to this improvement in results, it is felt that the college is now satisfactorily managing its working capital and as such, no specific disclosures with regards to going concern are required in the financial statements in the year. (In the previous year there were detailed disclosures and an emphasis of matter paragraph as part of the audit opinion.)

- **Asset capitalisation policy**

The accounting policy for capitalisation of equipment in the financial statements is to capitalise all items of equipment with an individual cost of greater than £5k. However, from a review of the fixed asset additions in the year, there are a significant number of assets with a cost of less than £5k being capitalised. This could imply that the college is not operating in line with accounting policy. Therefore, the accounting policy should be reconsidered and the wording of the policy amended. No errors were identified during our testing of the fixed asset additions.

- **Revaluation Reserve**

There was a previous year comment in the report to management on the lack of analysis of the revaluation reserve to enable it to be attributed to specific properties. This does not appear to be the case in the current year with a full analysis of the revaluation of the land and property being available.

- **Asset registers and accounts disclosures**

In the previous year, it was raised as an issue that the college did not have a comprehensive asset register. Assets comprise three main categories: Land and Buildings; Equipment; and Fixtures and Fittings (all included under the heading equipment in the accounts). The property element of this is straightforward and is complete. It was found in the current period that the asset register in respect of Land, Equipment and Fixtures and Fittings has been sufficiently completed. This shows that there has been an improvement in respect of stewardship of assets and also in respect of correct accounting for these assets.

Some of the issues raised above were identified as risks in our original audit plan, the other risks were identified during the course of the audit fieldwork. The audit 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:

Issue	Audit risks	Planned audit approach	Outcome
Recognition of Funding Council 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.	<i>Recurrent grant income may be overstated in the accounts.</i>	<i>Reconciliation to year end remittance advice from SFC and review the outcome of the student activity data audit.</i>	<i>Awaiting internal audit report</i>
FRS 17 Accounting for Pensions			

Issue	Audit risks	Planned audit approach	Outcome
Compliance with the accounting and disclosure requirements of FRS17	Disclosures and the accounting for pension costs and liabilities may not comply with FRS17 and the SORP Accounting in Further and Higher Education Institutions.	<p>We will</p> <ul style="list-style-type: none"> • Review college correspondence with, and the report of the actuaries in relation to the scheme • Review compliance with FRS17 	<i>Satisfactory – disclosures have been correctly amended to comply with FRS 17 amendment which became applicable in the year.</i>
Fixed Asset Register			
The previous auditors of the college had reported that the college did not have a complete fixed asset register	The value of fixed assets in the accounts may be overstated..	We will review progress with completion of the register and test a sample of assets for existence, and assess the potential impact on the financial statements.	<i>Asset register now considered to be sufficiently complete. Therefore, the risk is considered to have been satisfactorily addressed.</i>
Because there is no complete fixed asset register this makes it difficult to establish the amount of revaluation reserve attributable to each revalued asset	The value of the revaluation reserve in the accounts may be overstated	We will review progress with completion of the exercise to analyse and attribute values in the reserve, and assess the potential impact on the financial statements.	<i>Full and detailed analysis of revaluation reserve and revalued assets was made available and considered to be adequate. Therefore this risk has been satisfactorily addressed.</i>
Year – end cut off			

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Issue	Audit risks	Planned audit approach	Outcome
The College has budgeted for a surplus of £108,000.	A significant under statement of liabilities could distort the financial performance for the year.	We will review items of expenditure processed after the year end to ensure no significant omissions.	Satisfactory – The income & expenditure was reviewed in detail and no evidence of any significant omissions was identified
Corporate Governance			
Full compliance with corporate governance as set out by Audit Scotland.	<i>There may be inadequate evidence available to support the disclosures within the financial statements</i>	<p><i>We will review internal audit work in this area.</i></p> <p><i>We will review the College's corporate governance arrangements to ensure that the minimum required evidence is available.</i></p>	Satisfactory

ADJUSTED AND UNADJUSTED ERRORS

4.7 Actual Audit Adjustments

There was no requirement for any adjustments to be processed during the course of our audit as follows.

	<i>£'000</i>
Surplus / (Deficit) per accounts presented for audit	274
<i>Adjustments:</i>	0
Surplus / (Deficit) per final accounts	274

4.8 Potential Audit Adjustments

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

<i>Potential adjustments:</i>	<i>£'000</i>
Increase in transfer of depreciation on revalued assets from Revaluation Reserve (£28k)	Nil
Re-allocation of credit balances in Trade Debtors (£7k)	Nil
Re-classification of European Funding Credit balance (£5k)	Nil
Exchange difference on Euro bank account	(13)
Re-allocation of VAT debtor included in other taxes & social security creditor (£1.7k)	Nil
Net impact of potential adjustments	(13)

4.9 Accounting and financial control systems

The College produced draft financial statements for our audit on 2nd October 2008. As can be seen from the table at 4.7 there were no adjustments required to be made before final drafts were received on 6th November 2008. It is our aim, together with the director of Corporate Services and his staff to ensure that adjustments to draft accounts are kept to a minimum, ensuring a more efficient audit.

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

- There were no matters of weakness identified during the audit that we wish to draw to your attention, other than those highlighted at 4.6 above.

4.10 Regularity audit

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

5 CORPORATE GOVERNANCE

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

5.2 Statement on Corporate Governance

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

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

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

5.3 Severance payments

The College did not make any severance payments during the year.

5.4 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 has recently introduced a Risk Management policy, and a Risk Register which is under continual review so as to maintain an up-to-date and accurate register.

5.5 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 & Childcare Fund audits

5.6 Systems of Internal Control

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

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

5.7 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 Policy and Response Procedure, as part of their financial Regulations.

During the year, the College identified cash which was unaccounted for totalling £47,414 and this was discovered as a result of the person in question being unexpectedly absent from his post. As a result, a full investigation, both internal and external has been undertaken. In addition, the College requested that the internal auditors perform work in relation the Cash Office and the controls in place. The internal auditors have made several recommendation, many of which have now been implemented.

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:-

- Constitution and Standing Orders of the Board of Management
- A Register of Members' Interests
- Information regarding their appointment to outside bodies and organisations is disclosed in the financial statements.
- A Freedom of Information policy

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

6 ACTION PLAN

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

	Subject	Grade
1	Adherence to regulatory changes and also trying to provide accounts disclosures in line with 'best practice' prior to accounts being made available for auditing.	3
2	Review the capitalisation policy for equipment and amend if necessary. Make sure assets are only capitalised in line with the accounting policy.	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			Grade 3
<i>Issue</i>			
<p>The Operating & Financial Review disclosures and Corporate Governance disclosures were not sufficiently detailed in the draft financial statements. Although significant amendments have been made and all recommended disclosures are now in place, the college could review suggested changes throughout the year and apply ones that are considered to be 'best practice' prior to accounts being made available for audit.</p>			
<i>Recommendation</i>		<i>Management response</i>	<i>Action by whom</i>
<p>Good practice should be incorporated into college procedures and monitored.</p>		Action agreed	<p>Niall McArthur</p> <p><i>Deadline</i></p> <p>Ongoing</p>
2			Grade 3
<i>Issue</i> Items of equipment with an individual cost of less than £5k are being capitalised. The accounting policy states that only assets with an individual cost of more than £5k should be capitalised.			

<i>Recommendation</i>	<i>Management response</i>	<i>Action by whom</i>
<p>The college need to review the capitalisation policy and amend if necessary and then put procedures in place to make sure that assets are only capitalised in line with this policy.</p>	<p>Action Agreed</p>	<p><i>Niall McArthur</i></p> <p><i>Deadline</i></p> <p>June 2009</p>

Inverness College

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Annexes for Management Information

Tenon audit

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

We have audited the financial statements of Inverness 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 Inverness College and to the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. In accordance with the Code of Audit Practice approved by the Auditor General for Scotland, this report is also made to the Scottish Parliament, as a body. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than Inverness College or the Auditor General for Scotland, for this report or the opinions we have formed.

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 are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Board of Management and 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.

Opinion

Financial statements

In our opinion

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

Regularity

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 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.*