

KILMARNOCK **COLLEGE**

**ANNUAL REPORT
TO THE BOARD OF MANAGEMENT AND THE AUDITOR
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR
THE YEAR ENDED 31 JULY 2008**

NOVEMBER 2008

**Wylie & Bisset LLP
CHARTERED ACCOUNTANTS
168 Bath Street
Glasgow**

Date of commencement of Final Visit	29 September 2008
Date of Draft Report to College	4 November 2008
Date of Discussion re Draft Report	4 November 2008
Date of College Responses	20 November 2008
Date of Presentation of Report	27 November 2008

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GLOSSARY OF TERMS

Annual Report	-	Report
Kilmarnock College	-	The College
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VF

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Kilmarnock College with effect from 1 August 2006 for a period of 5 years until 31 July 2011.
- 1.2 The Annual Report has been prepared following our audit of the financial statements of Kilmarnock College for the year ended 31 July 2008.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in March 2008.
- 1.4 Paragraph 24 of the 'Code' states that the auditor's objectives are to:
- Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
 - Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
 - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 At present we are aware of an investigation by Chiene & Tait, internal auditors for the period to 2006/07, into the relationship between the College and associated bodies. We understand the focus of the investigation was to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the view given by the financial statements of the College for the year ended 31st July 2008.

- 1.8 Notwithstanding our disclaimer on the view given by the financial statements, we have not provided any qualifications on the regularity of transactions for the year ended 31 July 2008 and in our opinion, funds received have been applied for their intended purpose for the year then ended.
- 1.9 The audit of the College's SUMs certificate (as submitted to the SFC) for the year ended 31st July 2007, was undertaken by Chiene & Tait. From review of the final report, Chiene & Tait were unable to reach a satisfactory conclusion that the processes and procedures in place at the College were sufficient to properly identify non-fundable programmes or students and cause them to be properly excluded from the annual SUMs claims. The SUMs audit report issued by Chiene & Tait was qualified on the basis of uncertainty. As a result we were unable to rely or conclude on the work of the SUMs auditors in this area for the year ended 31st July 2007.
- 1.10 The audit certificate in respect of the 2007-08 SUM's return is unqualified. The auditor has concluded that the College has reasonable controls over the collection of data for the SUM's return, that assurance can be taken that the SUMs count for the College is accurate and the systems used by the College are satisfactory in most areas.
- 1.11 The Annual Report covers the following areas as set out in the Code:
 - a) Internal Controls and audit approach
 - b) Internal Audit
 - c) Corporate Governance
 - d) Value for Money
 - e) Prevention and detection of fraud and irregularities
 - f) Management letter – 2008
 - g) Management letter – 2007
- 1.12 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.13 Our audit work was designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.14 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.

- 1.15 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.16 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

Wylie & Bisset LLP

Wylie & Bisset LLP

2. INTERNAL CONTROLS AND AUDIT APPROACH

- 2.1 In the course of our audit we planned to review the key elements of the College's systems of internal financial controls including the following areas;
- a) The College's medium and short term planning processes including budgets;
 - b) The College's review of key performance indicators, financial and management accounts;
 - c) The College's controls over income and expenditure;
 - d) The College's financial controls and procedures;
 - e) The input from the Audit Committee and the Finance Committee;
 - f) The College's internal audit service.
- 2.2 In planning our audit work we have taken into account the following:
- a) The Code of Audit Practice issued by Audit Scotland;
 - b) The Code of Audit Practice issued by SFC;
 - c) Guidance issued by Audit Scotland;
 - d) Guidance issued by SFC;
 - e) The College's internal control procedures;
 - f) The College's Corporate Governance procedures;
 - g) The College's approach to Value for Money;
 - h) The financial memorandum between SFC and the College.
- 2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:
- a) Reviewing previous financial statements;
 - b) Reviewing internal audit plans and reports;
 - c) Discussions with senior management and staff at the College;
 - d) Completing appropriate audit programmes;
 - e) Carrying out analytical review procedures;
 - f) Carrying out substantive and compliance audit tests on a judgemental basis;
 - g) Reviewing the minutes of the principal College committees.
- 2.4 During the course of our external audit work a small number of weaknesses in the College's internal financial controls have come to our attention. Some of these weaknesses are raised in our management letter points in Sections 9 & 10. Further weaknesses have been raised by the internal auditors in their annual report.
- 2.5 The audit recommendations are included in the appropriate sections of this report. The recommendations have been graded as High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

3. FINANCIAL STATEMENTS

- 3.1 The financial statements of the College are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. In accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts direction issued by the SFC, it is the responsibility of the College to prepare financial statements, which give a true and fair view of the College's financial position and the income and expenditure for the year.
- 3.2 The Public Finance and Accountability (Scotland) Act 2000 requires that the auditor shall place on the abstract of accounts an audit report, which contains an opinion as to whether the College has fulfilled this responsibility. The format of the audit report directed by the Auditor General for Scotland clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their opinion.

AUDIT REPORT

- 3.3 At present we are aware of an investigation by Chiene & Tait, internal auditors for the period to 2006/07, into the relationship between the College and associated bodies. We understand the focus of the investigation was to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the view given by the financial statements of the College for the year ended 31st July 2008.
- 3.4 Notwithstanding our disclaimer on the view given by the financial statements, we have not provided any qualifications on the regularity of transactions for the year ended 31 July 2008 and in our opinion, funds received have been applied for their intended purpose for the year then ended.

FINANCIAL PERFORMANCE

- 3.5 The income and expenditure account shows an operating surplus for the year of £1,842,000. This is compared to a previous year surplus (restated) of £403,000. The accounts presented for audit showed a surplus of £198,000 before accounting for the movement in the net pension liability for the year, as a result of the full implementation of FRS 17, the gain on sale of the Irvine Property and as a result of a late adjustment to defer an amount of grant income received into 2008/09.
- 3.6 During the year the property at Bank Street, Irvine was disposed off resulting in a gain on sale of £1,807,000. Proceeds from the sale of £1,875,000 have been allocated as a restricted reserve in the financial statements, on the basis that the proceeds must be used to fund future estates projects. From discussion with the Director of Finance, no part of the sale proceeds requires to be repaid to the SFC.

- 3.7 The surplus brought forward on the income and expenditure reserve at 1 August 2007 was £267,000. After the surplus for the year of £1,842,000, (which includes the gain on sale of property of £1,807,000), the transfer into restricted reserves and the transfer from revaluation reserve is taken into account the surplus on the College's income and expenditure reserve at 31 July 2008 is £518,000.
- 3.8 In July 2008 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2006/07. The indicators show that in 2006/07 the College was generally operating above the sector average, particularly in regard to:
- ◆ **Operating surplus as % of total income was 2.3% compared with a sector average of 1.6%;**
 - ◆ **Interest cover was 7.3 compared to a sector average of 5.0.**
- 3.9 The College is to continue to keep the inter-college comparisons produced by SFC under review.

SUBMISSION OF ACCOUNTS

- 3.10 The accounts were submitted for audit on **29 September 2008**, in line with the agreed timetable. The accounts submitted for audit were substantially complete. Working papers provided have generally been of a high standard and queries arising from the audit have all been resolved. Key staff were readily available for consultation throughout the audit process. Our audit work is complete and we have reported accordingly.

ISSUES ARISING

- 3.11 At present we are aware of an investigation by Chiene & Tait, internal auditors for the period to 2006/07, into the relationship between the College and associated bodies. We understand the focus of the investigation was to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the view given by the financial statements of the College for the year ended 31st July 2008.
- 3.12 The College has fully implemented FRS 17 Retirement Benefits in the financial statements with regards to the disclosure of the Strathclyde Pension Fund, which is a defined benefit pension scheme. The College has, for the previous two years, utilised the exemption under FRS 17 to account for the above as a defined contribution scheme, on the basis that the College was unable to identify its share of the assets and liabilities of the scheme on a reasonable and consistent basis. The full implementation of the standard

represents a change in accounting policy and the comparative figures have been restated accordingly.

- 3.13 The impact of the prior year adjustment on the net assets at 1 August 2006 represents the inclusion of a £1,540,000 pension liability. The impact of the prior year adjustment on the income and expenditure account for the year ended 31 July 2007 represents the inclusion of a net pension return of £81,000.
- 3.14 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.

4. INTERNAL AUDIT

Objective and Approach

- 4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2 The College's internal auditors for 2007/08 were Chiene & Tait.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2008 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2008 the following internal audit reports were issued:
- a) Procurement
 - b) Corporate Governance
 - c) Risk Management
 - d) Staff Recruitment and Selection
 - e) Registry Services
 - f) Planned and Cyclical Maintenance
 - g) Follow up
 - h) Disciplinary Procedures Follow Up
- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment.
- 4.6 At present we are aware of an investigation by Chiene & Tait, internal auditors for the period to 2006/07, into the relationship between the College and associated bodies. We understand the focus of the investigation was to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the view given by the financial statements of the College for the year ended 31st July 2008.
- 4.7 The Annual Report from the College's internal auditors gave an overall opinion that management has substantial assurance that the internal controls and governance frameworks in operation are sufficient to ensure the efficient and effective operation of the organisation. Review of individual reports at 4.4 show an opinion of substantial assurance for all areas tested.
- 4.8 In compiling our recommendations for improvements included at section 9, we have not repeated matters already highlighted by internal audit in their available reports.

Opinion

- 4.9 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with the Internal Audit providers. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit with the exceptions noted at 4.6 above. Accordingly reliance was placed on the work of Internal Audit in all other areas on which they reported during 2007/08 as detailed at 4.4.

5. CORPORATE GOVERNANCE

Objective and Approach

- 5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was planned using a bespoke checklist. We also reviewed the following:
- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2008;
 - b) The College's Corporate Governance strategy;
 - c) The minutes of meetings of key College committees issued during the year.

Opinion

- 5.2 A review and assessment of the College's Corporate Governance arrangements was carried out, as part of the external audit for the year ended 31 July 2008. We identified three matters in relation to Corporate Governance during or audit (summarised in section 9 of this report). Two matters have been carried forward from our report for the year ended 31st July 2007(at section 9 of this report).
- 5.3 Based on our external audit work and discussion with current management at the College, we have made a number of recommendations in our Management Letter regarding the College's Corporate Governance procedures and arrangements in place covering standards of conduct etc.
- 5.4 We are aware that various changes have taken place during the last year and, from discussion with **current** management, progress has been made to continue the improvement and maintenance of Corporate Governance procedures and arrangements.

Recommendations

- 5.5 Our recommendations, subject to the results of the investigation noted at paragraph 1.7, are noted at Section 9 to this report.

6. VALUE FOR MONEY

Objective and Approach

- 6.1 We have reviewed the College's Value for Money systems including the following:
- a) The College's strategy in this area;
 - b) VFM studies carried out by the College's internal auditors.

Opinion

- 6.2 Based on our review the College appears to have established adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources subject to the points noted below.

Recommendations

- 6.3 There were no recommendations in 2007 and no further recommendations in this area this year.

7. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

- 7.1 The Code sets out that the College should establish arrangements for the prevention and detection of fraud and other irregularities as part of its Corporate Governance procedures.
- 7.2 An assessment was made of the adequacy of the systems and controls for the prevention and detection of fraud and irregularities using a bespoke checklist.
- 7.3 In the course of the audit we have reviewed the following areas with regard to the prevention and detection of fraud and irregularities:
 - a) The monitoring and compliance with financial procedures;
 - b) The College's strategy to prevent and detect fraud and other irregularities;
 - c) The internal controls operated for segregation of duties, authorisation and approval processes and reconciliation procedures.
- 7.4 We emphasise that our audit of the financial statements is planned to ensure there is a reasonable expectation of detecting misstatements arising from fraud or other irregularity that are material in relation to those financial statements, but cannot be relied upon to detect all frauds and irregularities.

Opinion

- 7.5 At present we are aware of an investigation by Chiene & Tait, internal auditors for the period to 2006/07, into the relationship between the College and associated bodies. We understand the focus of the investigation was to review governance arrangements, finances between related parties and any evidence of impropriety. The results of this investigation have not been published at the date of this report. Due to uncertainties arising from the unpublished results of this investigation, we have provided a disclaimer of opinion on the view given by the financial statements of the College for the year ended 31st July 2008.
- 7.6 Notwithstanding our disclaimer on the view given by the financial statements, we have not provided any qualifications on the regularity of transactions for the year ended 31 July 2008 and in our opinion, funds received have been applied for their intended purpose for the year then ended.

Recommendations

- 7.7 It is recommended that the College continues to maintain appropriate channels for staff to raise issues regarding the running of the College or the activities of colleagues within the College. There are no further recommendations in this area.

8. MANAGEMENT LETTER – 2008

8.1 The management letter for the year ended 31 July 2008 was issued by Wylie & Bisset following the audit for the year.

8.2 The following recommendations are graded as “High” priority in this area.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
<p>a. During the year ended 31 July 2008 the College did not appear to have a formal policy for Board training. (Repeated from 2007).</p>	<p>It is recommended that all Board members receive regular training and information to allow them to stay up to date with developments in the Sector and in the College itself.</p> <p>From discussion with senior management, we are aware that training is carried out on a regular basis and a formal procedure to cover both individual and group training is under development.</p>	<i>Medium</i>	<p>The Board fully accepts the need for the education and training of Board Members. Specific training activity was undertaken in 2007/2008:-</p> <ul style="list-style-type: none"> ▪ PIs ▪ SUMs Data <p>Half-day Board training seminars were undertaken on 24th September and 11th November 2008</p> <p>Although it is not considered necessary for the college to have a policy for Board Education and Training, a formal procedure to cover both individual and group training is under development. The college will also take advantage of the new SFC/SFEU initiative</p>	<i>February 2009</i>
<p>b. The College Financial Regulations have not been updated since 2002. (Repeated from 2007)</p> <p>We have been provided with a first draft of the regulations which have not yet been approved by the Board of Management.</p>	<p>It is recommended that the Financial Regulations be updated timeously to ensure that the College policies and procedures are being adhered to in relation to the financial statements in place.</p>	<i>Medium</i>	<p>The Financial Regulations were approved at Finance Committee on 24th November 2008.</p>	<i>Completed November 2008</i>

<p>c. From review of risk management documents in place during the year, it appears the risk policy has not been updated since it was established five years ago.</p>	<p>It is recommended that all College Corporate Governance, policy and procedure documents are regularly reviewed and updated to ensure they are complete and adequate.</p>	<p><i>Medium</i></p>	<p>Ongoing. This is being reviewed as part of the review of all policies and procedures.</p>	<p><i>Director of Finance February 2009</i></p>
<p>d. During our review of purchases we found that there were instances where invoices were not recorded by their invoice date.</p>	<p>We recommend that care is taken to ensure that all invoices are correctly recorded by their invoice date.</p>	<p><i>Low</i></p>	<p>Staff have been reminded to double check when keying dates.</p> <p>Spot checks will be undertaken on a monthly basis from December 2008 to April 2009</p>	<p><i>Finance manager December 2008</i></p>
<p>e. Chiene & Tait have carried out an investigation into the relationship between the College and associated bodies. The results of this investigation have not yet been published.</p>	<p>We recommend that the recommendations from the investigation are implemented as a high priority once the report has been finalised.</p>	<p><i>High</i></p>	<p>Ongoing</p>	<p><i>Chair of the Board of Management</i></p>

9. MANAGEMENT LETTER – 2007 and prior

9.1 The recommendations following the audit for the year ended 31 July 2007 by us are detailed below.

Background	Recommendations		College response as updated on 31 st May 2008	Status
a. The College has Anti Fraud & Corruption and Whistle blowing policies dated 9/8/06. Based on our review, neither policy appears to be adequately communicated to staff and neither policy can currently be accessed on the College's intranet.	It is recommended that the College implements appropriate channels for staff to raise issues regarding the running of the College or the activities of colleagues within the College.	<i>High</i>	The policy has been communicated to all staff. The policy is now easily accessible on the new and improved College intranet	<i>Cleared</i>
b. During the year ended 31 July 2007 the College did not appear to have a formal policy for Board training.	It is recommended that all Board members receive regular training and information to allow them to stay up to date with developments in the Sector and in the College itself.	<i>High</i>	The Board fully accepts the need for the education and training of Board Members. Specific training activity was undertaken in 2007/2008:- <ul style="list-style-type: none"> ▪ PIs ▪ SUMs Data Half-day Board training seminars have been scheduled for 24 th September and 11 th November 2008 Although it is not considered necessary for the college to have a policy for Board Education and Training, a formal procedure to cover both individual and group training is under development. The college will also take advantage of the new SFC/SFEU initiative	<i>Carried forward</i>
c. From a review of the Register of Interests, one member of the Board of Management had not submitted their disclosure forms for at least 12 months as at 31 July 2007. In addition, a member of senior management and member of the Board of Management did not disclose relationships with related undertakings. (<i>Repeated from 2006</i>)	It is recommended that the Secretary to the Board of Management remind board members of their responsibility to disclose any interests on a regular basis.	<i>High</i>	Throughout the academic year 2007/2008, Declaration of Interests has been a standard agenda item for all Board of Management and Committee meetings. In June 2008, all Board Members were requested to submit a statement of their interests so that the Register of Interests could be refreshed	<i>Cleared</i>

d. The College Financial Regulations have not been updated since 2002. <i>(Repeated from 2006)</i>	It is recommended that the Financial Regulations be updated timeously to ensure that the College policies and procedures are being adhered to in relation to the financial statements in place.	<i>High</i>	The Financial Regulations were revised, reviewed and approved by the Finance Committee at its meeting on 16 th January 2008. A commitment was made to present further revised regulations to the June 2008 Board meeting.	<i>Carried forward</i>
e. The Audit Committee does not contain a member who has a background in finance, accountancy or risk management.	It is recommended that the College take the appropriate action to appoint an appropriate individual to the Audit Committee.	<i>Medium</i>	The College has contacted professional accountancy bodies in an effort to find an accountant who would be prepared to join the Board. One such candidate has been identified and this individual will be invited to apply when Board appointments are advertised shortly.	<i>Cleared</i>
f. From review of Corporate Governance documents in place during the year, there does not appear to be a clear and documented procedure for regular review and updating.	It is recommended that all College Corporate Governance, policy and procedure documents are regularly reviewed and updated to ensure they are complete and adequate.	<i>Medium</i>	It is the practice that all policies are reviewed by the appropriate committee and approved by the full Board. Work has been undertaken by Quality Assurance to standardise documentation and establish a control list.	<i>Cleared</i>
g. During the audit process we were issued with the College Corporate Governance document (dated October 2007) which had not been approved by the Board of Management.	All documents should be passed before the Board and approved prior to issue	<i>Medium</i>	Governance procedures are scheduled for review at the June meeting of the Board	<i>Cleared</i>
h. Chiene & Tait are currently carrying out an investigation into the relationship between the College and associated bodies.	We recommend that the recommendations from the investigation are implemented as a high priority once the report has been finalised.	<i>High</i>	<i>Carried forward to 2007</i>	<i>Carried forward</i>

10. SUMMARY OF DEVIATIONS

10.1 During our audit work, we identified a number of issues relating to control matters. The table below outlines these issues and our recommendations concerning them.

Nature of Deviation & Reason for it	Actual Deviation £	Unadjusted I&E Effect £	Unadjusted B/S Effect £
Post year end credit notes omitted	2,595	(2,595)	2,595
Prepayments understated	7,871	7,871	(7,871)
Trade creditors understated	3,447	(3,447)	3,447
Accrued income understated	3,600	3,600	(3,600)

All of the above unadjusted amounts are immaterial in nature and have no effect on the audit opinion.

11. EMERGING ISSUES

11.1 Code of Audit Practice

The Scottish Funding Council have revised requirements in relation to internal and external audit.

The new requirements represent a fundamental recasting of previous codes of audit practice. In particular, the SFC have taken advantage of the extensive guidance on audit which has been published since previous codes were issued. The new requirements are therefore shorter by 65 pages compared to the longest of the two existing codes of audit practice. Consequently, the new audit requirements can now be simply incorporated within the other material associated with the *Financial memorandum*. The existing codes of audit practice have therefore been withdrawn completely. The SFC believe this rationalisation of their audit requirements is consistent with modern governance good practice and will benefit colleges and their stakeholders

APPENDIX A

**STATEMENT OF RESPONSIBILITIES OF THE BOARD OF
MANAGEMENT**

(As copied from Annual Accounts)

Statement of the Board of Management's Responsibilities

The Board of Management are required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each period.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice in Accounting for Further and Higher Education and with other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College Board of Management, the Board of Management, through its designated officer, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flow for that year.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future.

The Board of Management has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions which the Scottish Funding Council may from time to time prescribe.
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the College and prevent and detect fraud;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, heads of curriculum and service departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;

- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance Committee;
- Professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's systems of internal control, including internal finance controls.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Approved by order of the members of the Board on 8th December 2008 and signed on its behalf by:


Chairman

APPENDIX B

INDEPENDENT AUDITORS REPORT

(As copied from Annual Accounts)

Independent Auditors Report to the members of the Board of Management of Kilmarnock College, the Scottish Parliament and the Auditor General

We have audited the financial statements of Kilmarnock College for the year ended 31st 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, Accountable Officer and Auditor

The Board of Management and Accountable Officer 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 Board and Accountable Officer'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 Foreword 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 31st July 2008; and
- funds from whatever source administered by the College for specific purposes have been properly applied for the intended purposes.

In addition, we report to you if, in our opinion, the College has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement of Corporate Governance and Internal Control reflects the College's compliance with the requirements of the Scottish Funding Council and report if, in our opinion, it does not. We are not required to consider whether the statement covers all risks and controls, or 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. 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 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. However, the evidence available to us was limited and as a result of this we have been unable to obtain sufficient appropriate audit evidence concerning one area. Because of the significance of this item we have been unable to express an opinion on the financial statements as at 31st July 2008. Furthermore, no audit opinion was formed on the opening balances for the current year or on the comparative figures. Any adjustment to those figures could have a consequential effect on the reported surplus for the year ended 31st July 2007 or earlier periods.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion: disclaimer on view given by the financial statements

Financial Statements

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether:

- 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 31st 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;

- information which comprises the Operating and Financial Review included with the Annual Report is consistent with the financial statements.

Regularity

In respect solely of the limitation of our work referred to above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit. Notwithstanding our disclaimer on the view given by the financial statements, in our opinion:

- the expenditure and income shown in the financial statements for the year ended 31st July 2008 was 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 1st January 2006 and any other terms and conditions attached to them for the year ended 31st July 2008; and
- funds from whatever source administered by the College for specific purposes for the year ended 31st July 2008 have been properly applied for the intended purposes.

Wylie & Bisset LLP

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Wylie & Bisset LLP
Chartered Accountants and Registered Auditors
168 Bath Street
Glasgow
G2 4TP

8/12/08

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Date