HENDERSON LOGGIE

Edinburgh's Telford College

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

External Audit Report No: 2008/03

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Contents

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Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

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Executive Summary

1.1 Corporate Governance

- The College has shown a deficit for the year of £0.071 million against a forecast deficit of £0.125 million. The income and expenditure account balance at 31 July 2008 was a surplus of £31.039 million.
- The College's internal auditors in their annual report have concluded that *'In our opinion Edinburgh's Telford College has a framework of controls in place, in the areas which we have reviewed, that provides reasonable assurance regarding the effective and efficient achievement of the College's objectives and management of key risks'.*
- A governance project was started in 2007/08 looking at how the College could improve governance and ensure that there is appropriate information available to support Board members in carrying out their roles, both individually and collectively.
- The College's Corporate Governance Statement confirms that the College has been fully compliant with the principles of the 2006 Combined Code on Corporate Governance during 2007/08.
- We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively.
- The College has an on-going process for identifying, evaluating and managing its significant risks.

1.2 Performance

- The College's Strategic Plan 2008-2011 sets out the key strategic aims and objectives. World Class key performance indicators (KPIs) have been set linked to the agreed objectives.
- Risk management arrangements include the linking of the KPIs to the specific risks in the Risk Register. Risks are assigned to specific individuals for monitoring and ensuring appropriate controls are in place for the identified risks. In April 2008 the Audit Committee, together with members of the College Senior Management Team (SMT), held a risk workshop. Following this a new Corporate Risk Register was drawn up which links into the College's objectives through the four balanced scorecard categories.
- Regular performance reports including benchmarking information are submitted to the Board and Committees during the year.
- During the year a zero-based budgeting model for the 2008/09 budget was implemented, rather than the historical budgeting basis which was largely an uprating for inflation and known factors of the previous year's figures.
- The College submitted updated Efficient Government Initiative (EGI) information schedules to the SFC in November 2008. The first showed that the College has delivered in the region of 50% of the savings forecast for the period 2006/07 to 2007/08. Other savings will be delivered across time once the College's Corporate Information Systems Project is fully bedded in. The College also submitted a forecast for the period 2008/09 to 2010/11 showing total projected savings of £0.965 million, which are being re-invested in learning and teaching.

1.3 Financial Statements

- On 16 December 2008 we plan to issue an audit report expressing an unqualified opinion on the financial settlements of the College for the year ended 31 July 2008 and on the regularity of the financial transactions reflected in those financial statements.

- The financial statements of the College comply with the Accounts Direction issued by SFC and the new Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- Two significant audit adjustments were made to the unaudited financial statements. This included the inclusion of a provision in the financial statements for a number of voluntary severance payments, totalling £0.275 million, which were agreed in July 2008. An equal amount of deferred income was also released to fund the cost of these severances.

- There was no net impact on the reported deficit for the year as a result of the audit adjustments.

- The College failed to meet its WSUMs target for 2007/08 by 1,524 WSUMs (1.3%), (2006/07 – 4,658 WSUMs shortfall, 3.9%). The shortfall for 2007/08 is however within the 2% leeway for under-provision against target allowed by SFC.

Introduction

2.1 Background

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

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our *Strategic Planning Memorandum and 2007/08 Annual Audit Plan* issued on 2 May 2008 and considered and approved by the Audit Committee on 19 May 2008. The scope of the audit was to:

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

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

- compliance with legislation and financial regulations;
- estates capital expenditure and the appropriateness of the accounting entries. Issues surrounding the new campus development in relation to snagging, the claim by the contractors and VAT;
- recoverability of debtors;
- achievement of SUMs and commercial income targets;
- FRS 17 provision for pension liabilities;
- recognition of funding provided for specific purposes and the regularity of corresponding expenditure; and
- compliance with the new SORP on Accounting for Further and Higher Education.

2.2 Basis of Information

2.2.1 External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

2.2.2 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.

2.2.3 As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

2.3 Acknowledgement

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

3.1 Financial Position

3.1.1 Funding Council circular FE/54/02, issued on 20 December 2002 defines a college that is financially secure as one that '*on a continuing basis, is able to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve. The college must also generate sufficient cash to finance its operations and meets its liabilities; regular operating surpluses would ensure this.*'

3.1.2 Table 1 provides a summary of the College's planned and actual financial results, based on the formal Financial Forecast Return (FFR) submitted, by the College, to the Funding Council.

Table 1: Comparison of planned and actual financial results

	2006/07 Actual £000	2007/08 Planned £000	2007/08 Actual £000	2008/09 Planned £000
Financial outturn Surplus/(Deficit)	(32)	(125)	(71)	22
Income and expenditure reserves	32,705	32,686	31,039	32,708
Cash balances	2,091	4,557	5,211	5,009

Source: Audited accounts and 2008 FFR

3.1.3 Whilst there have been deficits reported in 2006/07 and 2007/08, overall, the College meets the requirements of the Funding Council to be classed as financially secure.

3.1.4 Overall, the College income in 2007/08 has increased by £0.817 million (2.7%) over 2006/07. The main reason is due to a significant increase of £1.297 million (5.7%) in SFC grant income, offset by a decrease in interest receivable of £0.647 million due to the 2006/07 figure including a one-off receipt of £0.781 million relating to the sale of the old campus. The SFC income movement includes an increase in recurrent grant of £1.531 million (7.7%) however this was offset by a decrease of £0.188 million (30.9%) in Financial Security funding and a decrease of £0.329 million (27.8%) in Capital Formula funding recognised in the income and expenditure account. Tuition fees and education contracts income increased by £0.204 million (4.1%).

3.1.5 Expenditure in 2007/08 increased by £0.826 million (2.7%) over 2006/07 primarily due to an increase in staff costs of £1.637 million (9.0%) and increased interest costs £0.251 million due to increased borrowing levels, offset by a decrease in operating expenses of £1.330 million. The reduction in operating expenses is largely due to the building now being run more efficiently, as well as a significant number of small items below the £10,000 capitalisation level being purchased shortly after the move to the new campus in 2006/07 and not being repeated in 2007/08.

3.1 Financial Position (Cont'd)

3.1.6 The deficit for the year is £0.054 million less than planned (as submitted to the Funding Council in the Forecast Financial Return (FFR)).

3.1.7 The College's cash balance at 31 July 2008 was £5.211 million, an increase of £3.120 million on the previous year. This was largely as a result of the College's strong operating cashflows. During the year an overdraft facility was replaced with a 25 year term loan. The loan outstanding at 31 July 2008 amounts to £7.962 million after repayment during the year of £0.038 million.

2007/08 SUMs outturn

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

Table 2: 2007/08 SUMs outturn

	2005/06	2006/07	2007/08
SUMs target	112,497	117,784	119,197
SUMs actual	111,454	113,126	117,673
Shortfall	1,043	4,658	1,524

Source: Audited SUMs returns.

3.1.9 College management has regularly monitored the level of SUMs throughout 2007/08 to ensure that the SUMs achieved is at least within the 2% leeway for under-provision against target allowed by SFC.

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

FRS 17 Retirement Benefits

3.1.11 The College accounted for its participation in the local government pension scheme as a defined benefit scheme and accordingly this has resulted in the College's share of the net pension liabilities within the Lothian Pension Fund (LPF) being provided for in the balance sheet. This is consistent with the accounting treatment adopted in 2006/07.

3.1.12 Note 26 to the financial statements highlights the deficit within the College's share of the LPF. A £1.963 million net pension liability has been reported at 31 July 2008, an increase in the liability of £1.360 million from the position at 31 July 2007. This is due to an increase in forecast wage rises and pension increases being reflected in the pension liability. The note provides the necessary FRS 17 disclosures.

3.1.13 With the exception of liabilities arising from early retirement provision costs, the College is unable to separately identify its share of assets and liabilities in the Scottish Teachers' Superannuation Scheme as the scheme is notionally funded. The College has applied the concession allowed by FRS 17 and has accounted for the scheme as a defined contribution scheme.

3.1 Financial Position (Cont'd)

Capital Expenditure

3.1.14 The College's new campus was completed in May 2006 with the College moving its operations to it in July 2006. A significant number of construction snagging issues affecting the new campus remain to be fully addressed however the College has a commitment from the contractor to progress to a conclusion all legitimate defects. A Permanent Occupancy Certificate was granted by City of Edinburgh Council in May 2008. The College has monies held on retention as part of creditors at 31 July 2008 in the sum of £0.809 million. In addition, the contractors have made a claim against the College for £1 million. The College does not believe the claim to be valid and discussions are ongoing.

3.1.15 There are a number of VAT issues from previous years that remain to be fully resolved in relation to the main campus. On 29 October 2008 the College received notification from HMRC that the College would have been entitled to issue a Certificate to Zero-rate the construction services relating to the construction of its new campus. HMRC agreed that the College can issue a belated certificate in respect of qualifying construction services. Since the construction of the new campus qualified for zero-rating, no VAT ought to have been charged on its construction and there ought to have been no VAT to which the Lennartz mechanism could be applied. The next step is for the College to issue the appropriate certificate to its supplier who would then need to take corrective action, ultimately leading to a VAT repayment to the College. Agreement has not yet been reached with HMRC on the quantum of the VAT savings that this decision will generate and a disclosure note has been included in the 2007/08 financial statements.

3.1.16 During 2007/08 £0.660 million was spent on capital works for the new Construction Centre of Excellence at West Shore Road, Granton. This includes the cost of leasehold improvements, architects fees and capitalised staff costs. This capital expenditure was funded largely with capital grants from the SFC.

Provisions

3.1.17 The College has a provision of £2.465 million at 31 July 2008 for early retirement pension costs. The provision relates to unfunded liabilities as a result of early retirements approved by management in previous years. The provision has been valued by a firm of actuaries using an assumed real discount rate of 2.8% per annum, net of pension increases.

3.1.18 A provision of £0.275 million has been created for voluntary severance agreed prior to 31 July 2008. The SFC requires external auditors to check that any severance payments to senior staff, classified as those earning more than £50,000 per annum, meet the requirements set out in SFC guidance. The severance payments made to two members of staff fell into this category and audit testing confirmed that these payments conformed with the guidance.

SFC Financial Memorandum

3.1.19 During the preparation and audit of the College's annual financial statements for the year ended 31 July 2007 material movements arose from the position reported in the period 12 management accounts and the in-year FFR to the SFC.

3.1 Financial Position (Cont'd)

3.1.20 In line with the Financial Memorandum, the Principal wrote to the SFC's Chief Executive in November 2007 to make him aware of these movements and identify and explain the issues that gave rise to them.

3.1.21 A Special Audit Review was requested by the College's Board of Management to provide external reassurance that:

- The financial position of the College was sound;
- Effective processes and controls are in place to monitor the College's financial position;
- The College was on track to achieve the 2007/08 weighted SUMs target and effective monitoring processes are in place; and
- The potential exposure for outstanding work on the new campus is known (refer paragraph 3.1.14 above).

3.1.22 Following discussion with the College's internal auditors, Scott-Moncrieff, and further consideration by the Audit Committee, it was agreed that the planned programme of internal audit reviews for 2007/08 covered the main areas under consideration. In particular two internal audit assignments in relation to 'Student Activity Collecting and Recording' and 'Budget Setting and Monitoring' were relevant to the above scope and objectives. Although a number of recommendations were made by the internal auditors, which were agreed by College management, the reviews provided the required assurance to the Board.

3.2 Corporate Governance Arrangements

3.2.1 The College has established corporate governance arrangements, with committees operating within a culture of risk management. Regular meetings of the Board of Management and College committees are held during the year at which strategic and operational matters are addressed. The College corporate governance arrangements are described in its Corporate Governance Statement contained with the financial statements.

3.2.2 A governance project was started in 2007/08 looking at how the College could improve governance and ensure that there is appropriate information available to support Board members in carrying out their roles, both individually and collectively. The project is being undertaken by a post-graduate student at Edinburgh University as part of their thesis and the final report is likely to be available early in 2009. An aim of the project is the production of revised procedural documents, including new standing orders

3.2.3 During the year, the College's internal control mechanisms identified governance issues relating to the openness and transparency surrounding a receipt of funding from another public body. Corrective action was taken by management and the Principal as soon as the issue was identified. Action taken also included considering how things should be done differently in future.

3.3 Systems of Internal Control

Control environment

3.3.1 Our work undertaken in relation to the 2007/08 financial statements audit has not identified any material weaknesses in the operation of financial controls and procedures. However, some areas for improvement were identified including:

- Errors noted in the calculation of prepayments. College management have advised that this will be reviewed and the calculation process amended for the 2008/09 year-end;
- Refinement is required to the methodology used to create the bad debt provision at 31 July 2008. The College should review the percentage provision levels for 2008/09 based on historic debt collection rates;
- Although improvement from last year was noted in creditors cut-off College management should again remind staff that it is important that all invoices relating to goods / services received prior to the year-end are authorised for processing without delay;
- The interest expense on the bank term loan will change when the Bank of England base rate changes. The College should ensure that the year-end balance is calculated using the impact of any changes in this rate; and
- Weaknesses in the controls to allocate some items of expenditure between the College and its subsidiary company Telford Training & Consultancy Services Limited (TTCS). From 2008/09 the activities of TTCS will be channelled through a new subsidiary company Waterfront Enterprises Limited and new business systems, processes and procedures have been established for this company addressing the identified control weakness.

Internal Audit

3.3.2 Scott-Moncrieff provided internal audit services to the College in 2007/08. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate.

3.3.3 In their annual internal audit report Scott-Moncrieff have concluded that: *'In our opinion Edinburgh's Telford College has a framework of controls in place, in the areas which we have reviewed, that provides reasonable assurance regarding the effective and efficient achievement of the College's objectives and management of key risks.'*

3.4 Corporate Governance Statement

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

3.4 Corporate Governance Statement (Cont'd)

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

3.4.3 The College's corporate governance statement for 2007/08 states that the College complies with all the provisions of the Combined Code in so far as they apply to the further education sector, and it has complied throughout the year.

3.4.4 Our audit opinion on the statement is covered by our auditors' report and is unqualified in this respect.

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

3.5.1 During 2007/08 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements*.

3.5.2 While the College does not have a specific fraud policy in place it has Standing Orders, Financial Regulations, a Procurement Policy and a Whistleblowing Policy. These together with internal controls and internal audit help ensure that the College has adequate arrangements in place for the prevention and detection of fraud and corruption. Greater use of the College's Intranet to make its policies accessible to staff will improve awareness in this area and the College has a project underway to update policies and publish these on the Intranet.

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

Performance

Introduction

4.1.1 The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

4.1.2 No performance audit studies were identified by Audit Scotland for the College during 2007/08.

Strategic Plan

4.1.3 The College has a three-year Strategic Plan covering the period from 2008 to 2011. In setting out its mission, vision and values the Strategic Plan goes on to identify its curriculum, strategic priorities and main partners. World Class KPIs covering 2007/08 to 2008/09 have been established.

4.1.4 The Plan is updated each year with input from the College's planning team.

Risk Management

4.1.5 The College has a Risk Management Policy which sets out the College's underlying approach to risk management and the roles and responsibilities of the Board of Management, College Principal, the College's Risk Management Team and other key parties. The main reporting procedures are also identified.

4.1.6 The system of internal control is designed to incorporate risk management, which together with other elements, facilitates the efficient and effective operation of the College and enables it to react to a variety of operational, financial and commercial risks.

4.1.7 In April 2008 the Audit Committee, together with members of the College SMT, held a risk workshop. Following this a new Corporate Risk Register was drawn up which links into the College's objectives through the four balanced scorecard categories. Risk ratings are provided, risks are ranked and mitigating controls are described. The College's Risk Register is mapped to the World Class KPIs and each risk is assigned to a strategy team for monitoring and ensuring that appropriate controls are in place.

4.1.8 The College's internal auditors reviewed risk management during the year, in particular looking at the College's processes for identifying, recording, mitigating and controlling risks and ensuring staff are aware of risk management. They found that although there were no major weaknesses there were a number of areas for improvement including revising documentation, formalising arrangements for updating the Risk Register and creating operational risk registers for all operational units.

4.1.9 The College held training workshops in 2007/08 with its insurers to assist with the development of a comprehensive business continuity plan. The plan is nearing completion, with only a number of responses from academic areas required before the plan can be finalised.

4.1.10 Audit Scotland *Financial overview of Scotland's colleges 2006/07*, published in April 2008, highlighted a number of current and future issues facing colleges including:

- Long term challenges due to changes in demographics, curriculum, funding and estates;
- Scottish Government funding constraints contributing to smaller increases in SFC income; and
- Increases in staff costs in excess of increases in funding.

In addition, a number of areas requiring improvement were identified:

- Need for improved financial forecasts;
- Improving benchmarking and risk management systems; and
- Ensuring registers of interests are up-to-date.

The College has been active in addressing a number of these issues including creating Waterfront Enterprises Limited from August 2008 in order to grow non-SFC income; improving the financial forecasting process; and updating its risk register.

Performance management

4.1.11 In developing their three-year plans each school / unit has agreed KPIs. Templates have been created by the planning team for each school / unit to use in reporting progress. These templates include completed actions and milestones along with individual performance goals which are linked to team goals and KPIs.

4.1.12 The Board receives regular reports and feedback from the planning team on the College's performance in implementing its strategic aims and objectives.

4.1.13 Finance KPIs are reported to the SMT on a period by period basis, quarterly to the Finance and Property Committee and twice a year to the Board of Management.

Financial management

4.1.14 Monthly management accounts are prepared and reviewed by the Finance team with quarterly reporting to the College's Finance and Property Committee. The College's arrangements in relation to its key financial risks include the regular review of the Risk Register and performance against agreed KPIs. The updated Risk Register identified seven key finance and property risks and most of these are linked into World Class KPIs or Finance KPIs. Reporting and tracking of the SUMs position is carried out fortnightly and reporting made throughout the year to the SMT.

4.1.15 As noted at paragraph 3.1.21 above, the College's internal auditors reviewed 'Budget Setting and Monitoring' as part of their planned audit reviews. The review concluded: *'the College has established a robust system for overall budget setting, monitoring and control which will provide a sound basis for maintaining financial health'*.

4.1.16 The College has for the second year in a row reported a small deficit, falling well short of its long-term target of producing operating surpluses at 5% of total income. However during the year a zero-based budgeting model for the 2008/09 budget was implemented, rather than the historical budgeting basis which was largely an uprating for inflation and known factors of the previous year's figures. This process has identified areas where costs can be reduced and staff have also been requested to make either a 2.5% or 5% reduction on these budgets through efficiency savings in 2008/09.

4.1.17 An information mapping review was undertaken by the College's internal auditors during the year. Staff and management were interviewed to determine what information was required for effective monitoring and management of their areas and a list of required information was drawn up as a result of this. The College has set in place processes for implementation.

Efficient Government Initiative (EGI)

4.1.18 The College submitted updated EGI information schedules to the SFC in November 2008. The first showed the actual outturn against the 12 potential time releasing and cash releasing savings totalling £0.975 million forecast for the period 2006/07 to 2007/08. To date the College has delivered in the region of 50% of the savings originally identified from business process improvements, mainly in relation to the pre-enrolment process and on course support. Other savings will be delivered across time once the College's Corporate Information Systems Project is fully bedded in and some will not materialise as expected, due to additional resources being put in place for services which better support the student journey. The College also submitted a forecast for the period 2008/09 to 2010/11 showing total projected savings of £0.965 million, the main element being generated from the College's voluntary severance scheme for managers and support staff. These savings are being re-invested in learning and teaching services.

Value for Money

4.1.19 While there is no formal Value for Money Policy in place, the strategic and operational plans together with the establishment and monitoring of KPIs ensures that the College has a culture of seeking improvement in its activities and operations that lead to the achievement of value for money.

4.1.20 The College carries out annual benchmarking using information provided by the SFC. The benchmarking information is considered by the Finance and Property Committee alongside the College's own KPIs.

4.1.21 The College's internal auditors reviewed the procurement function in the year, including checking that procurement and tendering processes were carried out with due consideration of *'economy, efficiency, and value for money'*. No areas for improvement regarding value for money were identified other than the use of an electronic procurement system.

4.1.22 The College is awaiting developments within procurement in the FE sector before making changes to the procurement function, including deciding on how an electronic procurement platform may be implemented. This is largely dependent on developments at APUC (Advanced Procurement in Universities and Colleges).

5.1 Audit Opinion

5.1.1 On 16 December 2008, we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008 and on the regularity of the financial transactions reflected in those financial statements.

5.2 Audit Completion

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

Table 3: Key elements of the audit process

Completeness of draft financial statements
A set of draft financial statements was received on 22 September 2008, one week in advance of the final audit visit, with only a small number of minor disclosures still to be finalised. Overall, these financial statements were of a high standard and required minimal presentational changes as part of the audit process. It is recognised that the College's current Finance Team has made significant improvements to the year-end processes over the past two years resulting in this position.

Quality of supporting working papers
In accordance with our normal practice, we issued a *'prepared by client'* request that set out a number of documents required for our audit of the financial statements. A largely complete set of supporting working papers were provided in line with this list at the outset of the audit with the remaining working papers provided during the fieldwork. These were generally of a high standard and, again, the improvements made by the College's Finance Team in this area are recognised.

Table 4: Key elements of the audit process (Cont'd)

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

5.3 Audit Adjustments and Confirmation

5.3.1 A number of potential adjustments were identified during the course of the audit. These were discussed with the Director of Finance and Governance and Head of Finance on 10 October 2008 and it was agreed not to adjust the financial statements on the grounds of materiality. Further items were agreed to be adjusted by management and in table 4 we draw your attention to these agreed audit adjustments.

Table 4: Audit adjustments

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
Staff restructuring costs	275			
Provision for redundancies				275
SFC grant income		275		
Deferred income			275	
SFC recurrent grant	204			
SFC other income		204		
	______	______	______	______
	479	479	275	275
	=====	=====	=====	=====

5.3 Audit Adjustments and Confirmation (Cont'd)

5.3.2 A number of disclosure and clarification adjustments were made to the accounts to ensure SORP and Accounts Direction compliance and improve the overall presentation of the accounts.

5.3.3 Our ISA 260 Report: *Report to those charged with governance,* setting out key matters relating to the audit of the financial statements, including audit adjustments and uncorrected misstatements, will also be presented to the College's Joint Finance and Audit Committee on 18 November 2008.

Confirmations and Representations

5.3.4 We confirm that as at 9 December 2008, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired. Appendix I provides a copy of the letter issued to the Audit Committee.

5.3.5 In accordance with auditing standards, we obtained representations from the College on material issues.

Appendix I - Confirmation of Independence

To: Edinburgh's Telford College and the Auditor General for Scotland

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

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

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

General procedures to safeguard independence and objectivity

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

- instilling professional values;
- communications;
- internal accountability;
- risk management; and
- independent reviews.

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

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

Confirmation of Audit Independence

We confirm that as at 9 December 2008, in our professional judgement, Henderson Loggie is independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner and audit staff is not impaired.

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

Yours faithfully

Henderson Loggie