



**ANNUAL REPORT
TO THE BOARD OF GOVERNORS AND THE
AUDITOR GENERAL FOR SCOTLAND
ON THE EXTERNAL AUDIT FOR THE
YEAR ENDED 31 JULY 2009**

OCTOBER 2009

Wylie⁺Bisset, LLP

Chartered Accountants
Business & Tax Advisers

**168 Bath Street
Glasgow**

Date of commencement of Final Visit	14/9/09
Date of Audit clearance meeting	7/10/09
Date of College Responses	8/10/09
Date of Presentation of Report	20/10/09

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GLOSSARY OF TERMS


Annual Report	-	Report
Jewel & Esk	-	The College
Governance and Management Appraisal and Policy Directorate	-	GMAP
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

1. INTRODUCTION

- 1.1. Wylie & Bisset were appointed as the External Auditors of Jewel & Esk College with effect from 1 August 2006 for a period of 5 years until 31 July 2011. Wylie & Bisset LLP succeeded Wylie & Bisset as auditor in 2008 and will undertake the remainder of the appointment.
- 1.2. The Annual Report has been prepared following the conclusion of our audit of the financial statements of Jewel & Esk College for the year ended 31 July 2009.
- 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 2007.
- 1.4. Paragraph 19 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 Governors with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Governors" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6. The responsibilities of Wylie & Bisset LLP 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. Our audit report on the financial statements for the year ended 31 July 2009 is unqualified.

- 1.8. 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) GMAP visits
 - f) Prevention and detection of fraud and irregularities
 - g) Management letter – 2008
 - h) Management letter – 2009
- 1.9. Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10. Our audit work is 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.
- 1.11. This report has been prepared for the purposes of the Board of Governors and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12. 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.
- 1.13. Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully



for and on behalf of
Wylie & Bisset LLP

2. INTERNAL CONTROLS AND AUDIT APPROACH

- 2.1. We have reviewed in the course of our audit 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 carrying out 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) Performing analytical review procedures;
 - f) Carrying out substantive and compliance audit tests on a judgemental basis;
 - g) Reviewing the minutes of meetings of the principal College committees.
- 2.4. Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 9 & 10.
- 2.5. The audit recommendations are included within the relevant sections of this report.
- 2.6. The recommendations have been graded as either 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. We are pleased to record that there are no qualifications in our audit report on the College's 2008/09 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year ended 31 July 2009; and funds received have been applied for their intended purpose.

FINANCIAL PERFORMANCE

- 3.4. The income and expenditure account shows an operating surplus for the year of £22k (2008 – £584k) on the year's operations before exceptional costs of £12,815k. Excluding the movements in relation to the pension liability under FRS17, the income and expenditure account would show an operating surplus of £4k (2008 - £323k).
- 3.5. Exceptional cost in the year relates to a bad debt write off £12,815k when a major debtor of the college went into administration during the year. The prior year accounts include exceptional income of £21,147k being the profit on sale of the old campus site.
- 3.6. In 2008/09 the College had forecast for an operating deficit of £336k through the College Financial Return. The College has currently budgeted for a surplus of £20k in 2009/10.
- 3.7. The consolidated balance brought forward on the income and expenditure reserve as at 1 August 2008 was £26,697k: the balance on the income and expenditure reserve at 31 July 2009 is £13,929k. Note however that these figures include a designated reserve of £22,375k and £9,560k for 2008 and 2009 respectively. Whilst disclosure of designated reserves is not required under the SORP it was agreed that given the size of the balance in question, this disclosure was required in order to provide a user of the accounts with a true and fair view of the situation.

- 3.8. In July 2009 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2007/08. These indicators show that in 2007/08 the College's financial performance is in line with the sector average, drawing attention to the fact that the financial position is skewed due to the development of the new campus and the resultant large designated reserve created in 2007/8.
- the reserves (designated reserves plus I&E reserves) were 168.3% of total income (06/07: 14.4%), compared with a sector average of 20.0% (2006/07: 14.2%); [note: excluding the designated fund this PI stands at 27.2% of income];
 - the liquidity ratio (current assets: current liabilities), was 1.65 (2006/07: 1.32) compared with a sector average of 1.76 (2006/07; 1.6).
- 3.9. In 2010 the SFC is due to publish comparisons of the financial performance of colleges based on 2008/09 PIs. The College will continue to keep the inter-college comparisons produced by SFC under review.

SUBMISSION OF ACCOUNTS

- 3.10. The accounts were submitted for audit on 9th September 2009. The financial pages of the accounts submitted for audit were substantially complete [and revised soon after to include the final financial information]. Working papers provided have generally been of a good standard and queries arising from the audit have all been resolved. Key staff members were available for consultation throughout the audit process.

ISSUES ARISING

- 3.10 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Head of Finance and Finance Director. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Governors and the Auditor General any matters of particular significance or interest, which arose from the audit.
- 3.11 **Accounting Policies:** In accordance with FRS18, the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts.
- 3.12 **Campus Development:** The campus development was completed during the year ended 31 July 2009 with final snagging costs to be settled with construction companies.
- 3.13 It is noted that there was a considerable level of overspend in relation to the campus redevelopment and that the financing of the overall project has been adversely impacted by the bad debt arising in relation to the sale of the land by the college (see 3.14). This has resulted in the management of the project and governance associated therein to have been subject to a review commissioned by the SFC and appropriate "lessons learned" identified for all parties involved.
- 3.14 **Exceptional item:** During the year, the debt remaining in relation to the sale of land at Eskbank went bad following the debtor going into administration, causing the debt to be written off. Due to the size of the balance in question this has been treated as exceptional expense and has resulted in a deficit for the College.

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 2009 were Scott Moncrieff.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2009 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) Review of 2007/08 SUMS Return (September 2009)
 - b) Cash Management (July 2009)
 - c) Arrangements for the Measurement of Student Satisfaction (February 2009)
 - d) Review of Application and Enrolment Process (January 2009)
 - e) Budget Setting and Monitoring (April 2009)
 - f) The Club Structure Review (October 2008)
- 4.5 The Internal audit work carried out and the reports issued in the year were largely in line with the Audit Needs Assessment, with a decision not to review two areas originally agreed being "Environmental Impact of new buildings versus specifications" and "EU Compliance for Contractor procurement process". It was decided in conjunction with the audit committee that these areas were no longer appropriate for review as these subjects were being covered within other College reviews and reports.
- 4.6 The Internal Audit annual report from the College's internal auditors concluded that 'Reasonable Assurance' could be taken from the internal audit work however we note that the areas reviewed by the internal audit function in the year were such that direct assurance could not be placed upon the reporting in order to allow us to substantially reduce our audit testing in any specific area.

Opinion

- 4.7 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and review of the Internal Audit reports. Based on this work, we concluded that the internal audit function is operating effectively and hence that we can place formal reliance on work of Internal Audit with regard to our assessment of the overall control environment operating at the College. Due the scope of the areas considered by the internal audit function during the year, we have been unable to place direct specific assurance on their work to allow us to substantially reduce our audit testing in any specific area.

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 carried out 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 2009;
 - b) The College's Corporate Governance strategy;
 - c) The minutes of meetings of key College committees issued during the year.

Opinion

- 5.2 Based on our review the College appears to operate appropriate Corporate Governance procedures and management have adequate arrangements in place covering standards of conduct etc. These include, for example, Codes of Conduct for both Board Members and Staff. However, a specific weakness was noted with regard to attendance at committee meetings. This has given rise to a recommendation within section 10.

Recommendations

- 5.3 There are two recommendations in this area.

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;

Note that whilst there have been no specific VFM studies carried out by the College's internal auditor during the year, implicit assurance over this area is obtained via all the internal audit reviews.

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.

Recommendations

6.3. There are no recommendations in this area.

7. GMAP VISITS

7.1. The College has submitted one GMAP return during the year ended 31 July 2009. The returns submitted were as follows:

a) College Financial Return.

7.2. There were no GMAP visits during the year.

7.3. We recommend that any reports from future GMAP visits should be forwarded to us so that they can be reviewed as part of our audit work.

8 PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

- 8.1 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.
- 8.2 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.
- 8.3 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.
- 8.4 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

- 8.5 Overall we concluded that management takes fraud prevention and detection seriously and has reliable controls in place to ensure that potential areas for fraud are detected.

Recommendations

- 8.6 There are no recommendations in this area.

9 MANAGEMENT LETTER – 2008

9.1 The management letter for the year ended 31 July 2008 was issued by Wylie & Bisset following the audit for that year. This included two recommendations as follows:

9.2 Payroll reconciliations

9.2.1 No reconciliations had been prepared between the payroll records and financial account during the year. The "reconciliation" provided to us once this was highlighted to management was a summary of the nominal ledger. Note that the lack of visible audit trail was highlighted in the prior year management letter and a pro-forma agreed at this stage. However, following staff changes, this template has not been utilised.

9.2.2 Wylie & Bisset recommend that the pro-forma be used to perform regular reconciliations between the payroll records and nominal ledger to allow a visible audit trail from source documents to final accounts in future years.

9.2.3 Management responded that:

Finance Staff currently reconcile all payroll control accounts, however the reconciliation of the template was not prepared due to uncertainties over data requirements. This will be taken forward without our External Auditors in the new financial year (2008/09).

9.2.4 **2009 follow up:** At the final audit revisit, it was noted that payroll reconciliations are now being prepared on a monthly basis.

9.3 Intercompany differences

9.3.1 The intercompany balances between the college and its trading subsidiary did not agree by an amount of £1,500. Whilst this is not material, given the nature of the balances the materiality concept is not wholly applicable. These balances should match in order to allow for elimination on consolidation.

9.3.2 Wylie & Bisset recommend that the intercompany accounts be reconciled on a quarterly basis in order to identify any differences arising in order that these can be investigated and resolved on a timely basis.

9.3.3 Management responded that:

A late journal entry (No: 5894) was posted on 19/08/08, which inadvertently was not credited to the College's Intra Group balance account. This will be corrected.

9.3.4 **2009 follow up:** Intra group balances have now been addressed and the balances contra out to nil.

10. MANAGEMENT LETTER – 2009

10.1 The recommendations arising from the audit for the year ended 31 July 2009 are set out below.

10.2 The recommendations have been graded as follows:

High Priority Recommendations addressing significant control weaknesses which should be implemented immediately.

Medium Priority Recommendations addressing significant control weaknesses which should be addressed in the medium term.

Low Priority Recommendations which, although not addressing significant weaknesses, would either improve efficiency or ensure that the college matches current good practice.

10.3 ELCG sales invoicing

10.3.1 It was noted that income due to the college in relation to the Lothian Colleges partnership had not yet been invoiced to the associated Colleges although the account reconciliation last carried out in Feb 09 indicated that Jewel & Esk College would send out invoices in March 2009.

Although the amount involved is not significant in terms of materiality (£5,767), the delay in invoicing is detrimental to the organisations cash flow and increases the risk associated with the ultimate collection of the balance.

10.3.2 Wylie & Bisset recommend that the invoicing for ELCG be sent out so that the income can be recouped as soon as possible.

10.3.3 This is designated a **Medium** priority.

10.3.4 Management Response: Agreed. There appears to have been an oversight with this particular inter-college invoice. However procedures have been tightened and the invoice in question was raised in September.

10.4 Bank Reconciliations

10.4.1 Our audit procedures highlighted that one of the bank reconciliations prepared for May '09 had not been signed as reviewed/authorised. Consequently, no evidence of review of the reconciliation has been maintained.

10.4.2 We recommend that the College ensure all bank reconciliations are reviewed once prepared and signed as such to evidence the review.

10.4.3 This is designated a **low** priority.

10.4.1 Management Response: It is acknowledged that one bank reconciliation statement had not been signed as reviewed, however the review was completed accordingly as part of our normal monthly checking procedures.

10.5 Board Committee Meeting Attendance

10.5.1 Our review of meeting attendance registers highlighted that the General purposes committee meeting held on 16 September 2008 was non-quorate, with only one attendee (from seven members). This does not represent best practice in relation to governance and undermines the validity of the meeting held at that time.

10.5.2 We recommend that Board and committee members be reminded of their duty to attend the relevant meetings and that the calendar of meeting be circulated to members at the start of the year. Further, we recommend that this be followed up by a reminder notice / email a month prior to the meeting.

10.5.3 This is designated a **Medium** priority.

10.5.4 Management Response: This matter was discussed at the Board of Governors meeting on 26 October 2008. Attendance at Committee has since approved.

10.6 Related Party Disclosures

10.6.1 As at the time of the audit, the related party disclosure forms had not yet been received by the College for all Board members.

10.6.2 We recommend that the College ensure all related party disclosure forms be completed on an annual basis with non responses followed up on a timely basis in order to ensure that the College complies with best practice in relation to governance.

10.6.3 This is designated a **Medium** priority

10.6.4 Management Response: This item will be brought to the attention of Board Members at the next Board of Governors meeting. However the related party disclosure in questions was for a new Board member who was possibly unfamiliar with our procedure.

APPENDIX A

STATEMENT OF THE BOARD OF GOVERNORS RESPONSIBILITIES

In accordance with the College's Constitution, the Board of Governors of Jewel & Esk College is responsible for the administration and management of the affairs of the College, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Governors are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Constitution, the Statement of Recommended Practice: Accounting in Further and Higher Education Institutions and other relevant accounting standards. In addition within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Governors, the Board of Governors, through its designated office holder, 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 flows for that year.

In causing the financial statements to be prepared, the Board of Governors has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the college will continue in operation.

The Board of Governors has a responsibility 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 Further and Higher Education (Scotland) Act 1992, the College's Financial Memorandum with the Funding Council and any other conditions which the 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 hence to take reasonable steps to prevent and detect fraud;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure; and
- ensure sound corporate governance and the proper conduct of the college's operations.

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 academic and administrative 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 Governors;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Governors and whose head provides the Board of Governors with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

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

Statement of disclosure to Auditors

- so far as the Board of Governors are aware, there is no relevant audit information of which the College's auditors are unaware, and
- it has taken all the steps that it ought to have taken as a Board of Governors to make itself aware of any relevant audit information and to establish that the college's auditors are aware of that information.

**APPENDIX A
INDEPENDENT AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF GOVERNORS OF JEWEL & ESK COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND

We have audited the financial statements of Jewel and Esk College for the year ended 31 July 2009 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, 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 and auditor

The Board of Management 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 for Further and Higher Education. The Board of Management are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Chief Executive'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 to you 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 report to you whether, in our opinion, the information which comprises the Operating and Financial Review included in the Annual Report, is consistent with the financial statements. 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 2009; 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 we report if, in our opinion, it does not.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF GOVERNORS OF JEWEL & ESK COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND (CONTINUED)

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. This other information comprises [list]. 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. Our 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 in the preparation of the financial statements, and of whether the accounting policies are most 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.

Opinions

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 made thereunder by the Scottish Funding Council, of the state of affairs of the college as at 31 July 2009 and of its deficit, total recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder by the Scottish Funding Council; and
- information which comprises the Operating and Financial Review included with the Annual Report, is consistent with the financial statements.

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 2009; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

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