HENDERSON LOGGIE
Chartered Accountants

Edinburgh's Telford College

Annual Audit report for 2008/09 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2009/03

Draft Issued: 5 November 2009
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Contents

Notice: About this report

This report has been prepared in accordance with the responsibilities set out within Audit Scotland's *Code of Audit Practice* ('the Code') and *Statement of Responsibilities of Auditors and Audited Bodies*.

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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 Group has shown a deficit for the year of £1.418 million, which includes exceptional restructuring costs of approximately £0.900 million net of financial security grants, against an original budgeted surplus of £0.022 million set out in the 2008 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC) in June 2008. The income and expenditure account balance at 31 July 2009 was a surplus of £25.525 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. A report was received in early 2009 and a draft governance code has been drawn up based on the Combined Code on Corporate Governance.

- The College restructured its Senior Management Team (SMT) at 1 August 2008, involving a reduction from 12 to nine persons and a reallocation of roles. The College Principal and Chief Executive resigned on 30 June 2009 and the former Depute Principal was appointed to act in his place during the recruitment process, which is currently ongoing.

- The College's Corporate Governance Statement confirms that the College has been fully compliant with the principles of the 2008 Combined Code on Corporate Governance during 2008/09.

- 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 although some issues remain to be fully addressed following the implementation of the new student records system.

- The College has an on-going process for identifying, evaluating and managing its significant risks.

1.2 Performance

- The College's Strategic Plan 2009-2012 sets out the key strategic aims and objectives. World Class key performance indicators (KPIs) have been set linked to the agreed objectives.

- A Corporate Risk Register has been drawn up which links into the College's objectives through the four balanced scorecard categories. The College's Risk Register is mapped to the World Class KPIs. There is also now an Operational Strategy Risk Map and Responsibility Strategy Map in place, which are used for monitoring purposes.

- Regular performance reports including benchmarking information are submitted to the Board and Committees during the year.

- A zero-based budgeting model was once again used for budgeting purposes. A comprehensive budget setting process for 2009/10, involving College management and the Board, has resulted in a further reduction in staffing levels for support staff and academic staff in order to set a break-even budget for 2009/10.

Executive Summary

1.3 Financial Statements

- On 15 December 2009 we plan to issue an audit report expressing an unqualified opinion on the financial settlements of the College for the year ended 31 July 2009 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 Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- Two audit adjustments were made to the unaudited financial statements. These both related to reclassifying income and expenditure items within the financial statements.

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

- The College exceeded its WSUMs target for 2008/09 by 1,006 WSUMs (0.8%), (2007/08 – 1,524 WSUMs shortfall, 1.3%).

Introduction

2.1 Background

2.1.1 2008/09 was the third 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 2008/09 Annual Audit Plan* issued on 28 April 2009 and considered and approved by the Audit Committee on 18 May 2009. 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 targets and the impact of the current economic climate on the achievement of the College's commercial and international income targets;
- recognition of funding provided for specific purposes and the regularity of corresponding expenditure;
- implementation of new student records and HR / payroll systems during the year;
- compliance with Financial Reporting Standard (FRS) 17 *Retirement Benefits* and provision for pension liabilities for early retirals; and
- compliance with the SORP on Accounting for Further and Higher Education.

Introduction

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.

Corporate Governance

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 FFR submitted, by the College, to the Funding Council.

Table 1: Comparison of planned and actual financial results

	2007/08 Actual £000	2008/09 Planned £000	2008/09 Actual £000	2009/10 Planned £000
Financial outturn Surplus/(Deficit)	(71)	22	(1,418)	1
Income and expenditure reserves	31,039	32,708	25,525	30,448
Cash balances	5,211	5,009	7,205	6,266

Source: Audited accounts and 2008 and 2009 FFR

3.1.3 During 2008/09 the global economic downturn has impacted on the College, particularly in regards to its commercial and international income. Outturn projections at Period 6 (January 2009) showed a projected net operating deficit of £0.783 million for 2008/09. Steps were taken to minimise the size of the forecast deficit in the last half of the year through managing staffing and supplies expenditure and tightening budgetary control. By the time of submission of the 2009 FFR to the SFC in June 2009 the College was forecasting a deficit for the year of £0.592 million. The final outturn deficit for 2008/09 is significantly higher, at £1.418 million, primarily due to the inclusion of voluntary severance accruals and provisions in the year-end financial statements. Exceptional restructuring costs totalling £1.219 million were incurred during 2008/09, which was offset by financial security grants of £0.323 million.

3.1.4 Overall, the College income in 2008/09 has increased by £0.591 million (1.9%) over 2007/08 to £31.571 million. The main reason is due to a significant increase of £0.854 million (3.6%) in funding council grants, offset by a decrease in tuition fees and education contracts of £0.248 million (4.8%) and a decrease of £0.194 million (29.7%) in investment income / interest receivable. The funding council grants movement includes an increase in recurrent grant of £0.988 million (4.6%) and an increase in the release of deferred capital grants of £0.156 million (37.1%) due to Forthside leasehold improvements now being depreciated. Offset against this are decreases in Financial Security funding £0.098 million (23.3%), Capital Formula funding £0.181 million (21.2%) and superannuation contributions £0.110 million (50.0%) recognised in the Income and Expenditure Account.

3.1.5 The decrease in tuition fees and education contracts relates to reduced contract and training income because of the current economic conditions. The decrease in investment income / interest receivable is due to there being no FRS17 notional interest receivable this year (2007/08 – £0.270 million) and reduced bank interest (down £0.252 million) due to lower rates of return on cash balances. This was offset by £0.382 million backdated interest received from HM Revenue and Customs (HMRC) in relation to the VAT settlement on the new campus (see 3.1.15 below).

Corporate Governance

3.1 Financial Position (Cont'd)

3.1.6 Expenditure in 2008/09 increased by £1.933 million (6.2%) over 2007/08 to £32.989 million, primarily due to an increase in staff costs of £0.796 million (4.0%) and an increase in restructuring costs of £0.845 (225.9%) following a further round of voluntary severance. The overall increase in other operating expenditure of £0.593 million is largely due to the College contribution to bursaries (£0.268 million), increases in energy prices (£0.207 million), increased professional fees of £0.308 million due to matters such as completing the VAT arrangements on the new campus and increased rental costs £0.104 million arising from operation of the new Forthside building. The depreciation charge for the year is up £0.105 million (4.4%) however off-set against this is an adjustment to prior years depreciation of £0.358 million, due to the land & buildings fixed asset balance being reduced by £8.939 million for zero-rating received on the new campus.

3.1.7 The College's cash balance at 31 July 2009 was £7.205 million, an increase of £1.944 million on the previous year. This was largely as a result of the receipt of the final VAT settlement of £2.830 million on the new campus, offset by cash outflows from the operating deficit. The College has loans outstanding at 31 July 2009 of £8.360 million down from £8.662 million in 2007/08.

2008/09 SUMs outturn

3.1.8 The College's outturn against its 2008/09 SUMs offer is shown in table 2.

Table 2: 2008/09 SUMs outturn

	2006/07	2007/08	2008/09
SUMs target	117,784	119,197	119,197
SUMs actual	113,126	117,673	120,203
(Shortfall) / Excess	(4,658)	(1,524)	1,006

Source: Audited SUMs returns.

3.1.9 College management has regularly monitored the level of SUMs throughout 2008/09 to ensure that the SUMs target would be achieved or was 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 2008/09. 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 2007/08.

Corporate Governance

3.1 Financial Position (Cont'd)

3.1.12 Note 26 to the financial statements highlights the College's net pension liability position of £6.025 million within the LPF. This has moved significantly in the year from a net pension liability of £1.963 million at 31 July 2008. This change in financial position results from both a fall in the fair value of employer assets as at 31 July 2009 and a change in the assumptions affecting the actuarially determined liability balance (refer table 3 below). The amount recognised in the income and expenditure account in relation to the LPF includes a net interest expense on pension assets and liabilities of £0.014 million (2007/08 – £0.270 million interest income).

Table 3: LPF financial assumptions

	31 Jul 09 % p.a.	31 Jul 08 % p.a.
Pension increase rate	3.7	3.8
Salary increase rate	5.2	5.3
Expected return on assets	6.9	7.3
Discount rate	6.0	6.7

Source: LPF actuarial valuation for FRS 17 purposes at 31 July 2009

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.

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 number of construction snagging issues affecting the new campus remain to be fully addressed. The College held £0.809 million as a retention at 31 July 2009. Negotiations are ongoing with the contractor in relation to reaching a settlement for both the Final Account and the defects / retention issues.

3.1.15 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 to give effect to zero-rating by making 'ex-gratia' payments directly to the College. HMRC has also allowed VAT on non-construction costs, such as professional fees, related to the new campus to be claimed through the Lennartz mechanism. A final settlement was received from HMRC in June 2009. The Lennartz VAT has to be repaid to HMRC over a period of 10 years and a creditor for this, totalling £1.605 million, has been included within the financial statements at 31 July 2009 (£1.411 million falling due after more than one year).

3.1.16 During 2008/09 £1.514 million of capital expenditure was incurred, including £1.416 million spent on capital works. This mainly related to leasehold improvements and professional fees for the new Construction Centre of Excellence at West Shore Road, Granton which opened in October 2008.

Corporate Governance

3.1 Financial Position (Cont'd)

Provisions

3.1.17 The College has a provision of £2.702 million at 31 July 2009 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 calculated using SFC approved calculation tables at a real discount rate of 2.5%.

3.1.18 A provision of £0.304 million has also been created for voluntary severance agreed prior to 31 July 2009. 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.

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 and discussed at paragraph 3.4 below.

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 was undertaken by a post-graduate student at Edinburgh University as part of their thesis and the final report was published in early 2009. A draft governance framework based on the Combined Code on Corporate Governance has been drawn up. A committee delegation list and scheme of delegation are also to be drawn up. The Board of Management considered these developments at its Strategy Day on 12 November 2009.

3.2.3 From 1 August 2008 the former Associate Principals were appointed Assistant Principals as part of a SMT restructure. In recent years the College has downsized its SMT from 19 persons to nine. The restructure at 1 August 2008 coincided with a reduction in the SMT from 12 persons to nine, with three members of the SMT leaving the College. The opportunity was taken to reallocate roles between the remaining members of the SMT and remove the Executive from the structure.

3.2.4 The College Principal and Chief Executive resigned on 30 June 2009 and the former Depute Principal was appointed to act in his place during the recruitment process, which is currently ongoing.

Corporate Governance

3.3 Systems of Internal Control

Control environment

3.3.1 Our work undertaken in relation to the 2008/09 financial statements audit has not identified any material weaknesses in the operation of financial controls and procedures. However, some areas for improvement and highlighting were identified including:

- A new student records system (SRS) was implemented during 2008/09 which encountered start-up problems. This resulted in a delay in raising fee invoices (although the main area where fee invoices require to be raised is in relation to overseas students and the majority of this income is received up-front). Further work has been undertaken to ensure that the system and related processes are corrected for 2009/10 and the College will need to ensure that controls have been put in place to ensure all amounts are invoiced timeously.

  A review has been undertaken by the College's internal auditors to identify the lessons that could be learned from the implementation of the SRS with a view to informing future College projects.

- Another issue arising from the SRS implementation was that bursary / Educational Maintenance Allowance (EMA) awards staff were unable to check attendance registers for the 2008/09 academic year until January 2009 potentially giving rise to significant overpayments in terms of the national guidance. When the registers were available they were found to be incomplete or unreliable. College management made a decision that students affected should be paid to ensure that none would be disadvantaged as a result of the status of the registers.

  Management has sought to address these issues both in-year and to help ensure that they do not recur in the future and completion of this work should be given a high priority.

- As a result of the problems with the SRS there were approximately 450 credit balances in the debtors' ledger at 31 July 2009. A number of these were reviewed as part of our audit and found to be genuine amounts due by the College however the College will need to follow-up the remaining balances.

- The College should review arrangements for Accounts Payable staff to make sure they cannot make changes to supplier standing data details as well as processing invoices, although it is recognised that staff numbers result in limitations in the scope for further improvement in relation to segregation of duties.

- Controls to monitor changes made by the administrator of the College's main accounting system should be put in place.

- Due to financial constraints a number of members of the Finance team have left the College in 2008/09 and not been replaced. There is some concern over whether the current staff level is sufficient, particularly given the problems noted with the SRS in 2008/09 and the resource required to rectify this.

- Refinement is required to the methodology used to create the bad debt provision at 31 July 2009. The College should review the percentage provision levels for 2009/10 based on historic debt collection rates.

Corporate Governance

Internal Audit

3.3.2 Audit Scotland's *Code of Audit Practice* directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Scott-Moncrieff provided internal audit services to the College in 2008/09. 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 2008 for the 2008/09 financial statements.

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 2008/09 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 2008/09 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 The College has a fraud policy, 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.

HENDERSON LOGGIE

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 2008/09.

Strategic Plan

4.1.3 The College has a three-year Strategic Plan covering the period from 2009 to 2012. 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 2009/10 to 2011/12 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 A Corporate Risk Register has been 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. There is also now an Operational Strategy Risk Map in place setting out for each strategy area the key themes, KPIs, targets, risk ratings and any actions required. A Responsibility Strategy Map allocates responsibility for these actions to the appropriate Heads of Department and lists sources of evidence for each of the KPIs. The Responsibility Strategy Map is regularly updated to show the status of progress made against each of the KPIs e.g. on target or behind target but action plan in place. A commentary is also provided.

4.1.8 The College Business Continuity Plan (BCP) was finalised during 2008/09. This was reviewed by internal audit and the BCP was found to be satisfactory however it needed to be communicated, embedded and tested. The College had BCP training from the College's insurers in October 2009 to update and test the BCP and this is expected to be done on an ongoing basis. The College is aware that its IT disaster recovery plan does not include a backup server and is exploring potential options regarding this.

Performance management

4.1.9 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.

Performance

Performance management (Cont'd)

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

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

4.1.12 An information mapping review was undertaken by the College's internal auditors in 2007/08 to identify what information was required by staff for effective monitoring and management of their areas. Due to significant change during the year the production of system generated reports to provide this information has not progressed as much as had been hoped but is still progressing nevertheless.

Financial management

4.1.13 Monthly management accounts are prepared and reviewed by the Finance team with quarterly reporting to the College's Finance, Property and Business 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.

4.1.14 In line with the principles set out to establish the 2008/09 budget, the SMT continued to use a Zero Based Budget approach for setting the budget for 2009/10. During this review, it became clear that deep consideration should be given by the SMT to the College's non-SFC income streams due to the impact the global down turn was having on this income segment during 2008/09. Income targets were significantly reduced and as a consequence the College's cost base had to be trimmed to meet the level of resources available to it. In May 2009 the Board of Management was presented with three indicative options on the way forward and requested to provide a steer on which option to progress. To achieve the necessary cost reductions management instigated a three phase review, which included a further review of the Curriculum, a review of Support Section service essentiality and an independent review of management. The outcome of the Staffing Review was a proposed further reduction in staffing levels for support staff and academic staff. To achieve these reductions the College offered a package of measures such as voluntary severance, early retirement, voluntary sabbaticals, reduction of hours worked and reduction of days worked.

4.1.15 The 2009/10 budget proposal was considered by the Finance, Property and Business Committee at its meeting in May 2009 and recommended (together with the underpinning plans for Curriculum and Support) to the Board for approval at its meeting in June 2009. The Board agreed to approve this budget. The 2009 FFR to the SFC shows a break-even position for 2009/10 to 2011/12. The Board has recognised that the 2009/10 budget will need to be monitored and managed extremely carefully and stressed that they must be kept up-to-date on the position throughout the year.

Performance

Efficient Government Initiative (EGI)

4.1.16 As reported last year, the College submitted updated EGI information schedules to the SFC in November 2008. This included 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. At the date of this report the quantification of actual savings for 2008/09 was not available. This information will be included on a return to SFC, due to be submitted in January 2010.

Value for Money

4.1.17 While the Value for Money Policy has not been updated since 2002, 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.

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

4.1.18 The College's internal auditors did not undertake any specific value for money reviews during 2008/09 however value for money aspects are built into each of their reviews.

4.1.19 The College is expecting to implement the PECOS procurement module in the near future. This software is used by the Scottish Government and has been rolled out to public sector bodies throughout Scotland in order to obtain greater value for money in purchasing.

Financial Statements

5.1 Audit Opinion

5.1.1 On 15 December 2009, we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2009 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 4 the three key elements of the audit process that we require the College to engage with.

Table 4: Key elements of the audit process

Completeness of draft financial statements
A set of draft financial statements was received on 23September 2009, 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

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 evidence the quality of work done by the Finance Team.

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 16 October 2009 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
Other grants and contracts income	31			
Funding council grants income		31		
Staff costs – other income generating activities	157			
Staff costs – Other operating expenses		157		
	188	188	-	-

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 24 November 2009.

Financial Statements

5.3 Audit Adjustments and Confirmation (Cont'd)

Confirmations and Representations

5.3.4 We confirm that as at 8 December 2009, 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 8 December 2009, 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