

AYR COLLEGE

**ANNUAL REPORT
TO THE BOARD OF MANAGEMENT AND THE AUDITOR
GENERAL FOR SCOTLAND ON THE EXTERNAL AUDIT FOR
THE YEAR ENDED 31 JULY 2010**

NOVEMBER 2010

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

Date of commencement of Final Visit	27 October 2010
Date of Draft Report to College	15 November 2010
Date of Meeting re Draft Report	17 November 2010
Date of College Responses	22 November 2010
Date of Presentation of Report	26 November 2010

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GLOSSARY OF TERMS

Annual Report	-	Report
Ayr College	-	The College
Code of Audit Practice	-	The Code
Scottish Funding Council	-	SFC
Value for Money	-	VFM

1. INTRODUCTION

Wylie & Bisset LLP were appointed as the External Auditors of Ayr College with effect from 1 August 2006 for a period of 5 years until 31 July 2011.

The Annual Report has been prepared following the conclusion of our audit of the financial statements of Ayr College for the year ended 31 July 2010.

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.

Paragraph 24 of the 'Code' states that the auditor's objectives are to:

- Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
- Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
- Review aspects of the College's arrangements to manage its performance.

The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.

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.

Our audit report on the financial statements for the year ended 31 July 2010 is unqualified.

The Annual Report covers the following areas as set out in the Code:

- a) Internal Controls and audit approach
- b) Internal Audit
- c) Corporate Governance
- d) Value for Money
- e) Prevention and detection of fraud and irregularities
- f) Management letter – 2009
- g) Management letter – 2010
- h) Emerging Issues

Our audit findings in each of the above areas are set out in the relevant sections of the report.

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 College's systems and financial statements.

This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.

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.

Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

Wylie & Bisset LLP

Wylie & Bisset LLP

2. INTERNAL CONTROLS AND AUDIT APPROACH

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.

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.

In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:

- a) Reviewing previous financial statements;
- b) Reviewing internal audit plans and reports;
- c) Discussions with senior management and staff at the College;
- d) Completing appropriate audit programmes;
- e) Carrying out analytical review procedures;
- f) Carrying out substantive and compliance audit tests on a judgemental basis;
- g) Reviewing the minutes of the principal College committees.

Based on our review the College appears to operate appropriate internal financial controls, subject to the management letter points raised in Sections 8 & 9.

The audit recommendations are included in the appropriate sections of this report.

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

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.

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.

3.1 AUDIT REPORT

We are pleased to record that there are no qualifications in our audit report on the College's 2009/10 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, and funds received have been applied for their intended purpose.

3.2 FINANCIAL PERFORMANCE

The income and expenditure account shows an operating surplus for the year of £ 409k (2009 - £101k) on the year's operations.

In 2009/10 the College forecast for an operating surplus of £138k. The College has currently budgeted for a £85k operating deficit in 2010/11.

The reconciliation of the 2009/10 budget to the actual is as undernoted:-

	£'000	£'000
Budget operating surplus		138
Adverse decrease in income – fee waiver	(86)	
Favourable increase in income – release of deferred capital grants	104	
Favourable increase in income – overseas student fees	332	
Adverse decrease in income – European Funding	(76)	
Favourable increase in income – other tuition fees	86	
Adverse increase in expenses – property costs	(200)	
Adverse increase in expenses – consultancy	(54)	
Adverse increase in expenses – exam fees	(23)	
Others	(11)	
Overspend in student support funds	(266)	
Favourable effect of FRS 17 pension cost adjustment	<u>443</u>	
		<u>271</u>
Actual operating surplus		<u>409</u>

In 2011 the SFC is due to publish comparisons of the financial performance of colleges based on 2009/10 PIs.

In July 2010 the Scottish Funding Council (SFC) published a series of performance indicators (PIs) assessing the financial performance of further education colleges for 2008/09.

The College is continuing to keep the inter-college comparisons produced by SFC under review.

3.3 PERFORMANCE INDICATORS

	2008/09 Ayr College	2008/09 Sector Average
Operating Surplus as a % of income	0.6%	(0.2%)
The Reserves (designated reserves plus Income & Expenditure reserves) as a % total of income	26%	25%
Historical cost surplus as a % of income	1.3%	2.4%
The liquidity ratio (current assets: current liabilities)	1.07	1.87
Interest cover	102	0.59
The days cash to total expenditure ratio	45	81
Unit cost of WSUM	241	237
WSUM's per FTE teaching staff	364	374
Staff costs as % of total expenditure	71%	65%
Premises cost as % of total expenditure	8.1%	9.7%
Total funding grant as a % of total income	74%	73%
Recurrent grant as a % of total income	67%	65%
Total Education Contracts and Tuition Fees as a % of total income	12.1%	15.7%
Total other income as a % of total income	12.8%	10.0%
European Income as a % of total income	4.4%	1.7%

3.4 SUBMISSION OF ACCOUNTS

The accounts were submitted for audit on 27 October 2010. The accounts submitted for audit were complete. Working papers provided have generally been of a good standard and queries arising from the audit have all been resolved. Key staff members were readily available for consultation throughout the audit process.

3.5 ISSUES ARISING

During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.

3.6 Accounting Policies: In accordance with FRS18 the Audit Committee have formally reviewed the accounting policies included in the Annual Accounts.

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 2010 were Scott Moncrieff.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2010 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2010 the following internal audit reports were issued:
- a) Financial Controls – Income and Banking
 - b) Marketing
 - c) Non SFC Income Generation
- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment.
- 4.6 The Internal Audit annual report from the College's internal auditors concluded that all 6 recommendations made in internal reports from 2009/2010 have been fully implemented and they commended the College management on the prompt implementation. A clean internal audit opinion was given.

Opinion

- 4.7 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist and discussion with the Internal Audit providers. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit. Accordingly reliance was placed on the work of Internal Audit in all areas on which they reported during 2009/10 as detailed at 4.4.

5. CORPORATE GOVERNANCE

Objective and Approach

- 5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was 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 2010;
 - 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.

Recommendations

- 5.3 There are no 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;
 - b) VFM studies carried out by the College's internal auditors.

Opinion

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

Recommendations

- 6.3 There are no recommendations in this area.

7. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

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

Opinion

- 7.5 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

- 7.6 There are no recommendations in this area.

8. MANAGEMENT LETTER – 2009

- 8.1 The management letter for the year ended 31 July 2009 was issued by Wylie & Bisset LLP following the audit for that year.
- 8.2 All the 2009 recommendations set out in the management letter have been implemented.

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>1. Corporate Governance</p> <p>The self-evaluation of the Board members was carried out in December 2008. We are to sign the accounts in December 2009 and it appears that there is too big a gap between self evaluation for us to be aware of any potential matters that may be brought to light.</p>	<p>It is recommended that the self evaluation be rescheduled to ensure that the wide gap is narrowed down between self evaluation.</p>	<p>Medium</p>	<p>After December 2009 future self valuations will be carried out near beginning of academic year so that it will be recent when accounts are signed off</p>	<p>Chair of Board during 2010/11</p>
<p>2. Fixed Assets</p> <p>During the audit test for additions to fixed assets it was noted that property additions included items relating to fixtures and fittings. The fixture and fittings are thus being depreciated at a lower rate of depreciation.</p>	<p>It is recommended that capital invoices be properly coded and reviewed to ensure correct allocation to account headings.</p>	<p>Low</p>	<p>The fixtures and fittings were part of a building upgrade. Any depreciation charge is offset by release of deferred grant. Fixed asset additions will be reviewed for classification.</p>	<p>Director of Finance during 2009/10</p>
<p>3. Bank Reconciliations</p> <p>Of a sample of 7 months reconciliation for each bank account and petty cash:- -15 were not dated when signed as authorised.</p>	<p>It is recommended that the College procedures be followed up properly relating to dates of review.</p>	<p>Low</p>	<p>Date evidencing the authorisation will be included on all reconciliations.</p>	<p>Director of Finance during 2009/10</p>

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>4. Debtors</p> <p>It was noted that there was a credit balance of £71k in relation to the account with SAAS and the balance has hardly moved to date.</p>	<p>It is recommended that this account be monitored closely and any refunds to SAAS or other adjustment be reflected timeously.</p>	<p>Low</p>	<p>The majority relate to students who SAAS are aware have withdrawn or changed course and will recover against their next payment to the college</p>	<p>Director of Finance during 2009/10</p>

9. MANAGEMENT LETTER – 2010

9.1 The recommendations following the audit for the year ended 31 July 2010 are set out below.

9.2 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.

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>1. <u>Fee Waiver</u></p> <p>At the year end £203K is outstanding.</p>	<p>It is recommended that the College ensure that the full amount is recoverable as the final payment is dependent on availability of funds at the time of settlement.</p>	<p>High</p>	<p>Amounts have to date always been paid in full. In 2010 SFC advised that they will in future ordinarily cap at 15% above initial allocation. Ayr's claim is 15.03% above allocation</p>	<p>Director of Finance. During 2010-11</p>
<p>2. <u>PAYE/NI</u></p> <p>The College has been carrying forward a liability of £39K for a few years now.</p>	<p>It is recommended that the position be regularised as soon as possible.</p>	<p>Low</p>	<p>in August 2006 the College received a cheque from HMRC for an "overpayment" Retained against possible future repayment</p>	<p>Director of Finance. During 2010-11</p>
<p>3. <u>Accrued Income</u></p> <p>Our audit testing of the above uncovered that £25k of income should be released to I&E account.</p>	<p>It is recommended that the accrued income schedules are double checked to ensure that all amounts are included.</p>	<p>Low</p>	<p>Trade training agency isn't invoiced until a PO is issued. There was an exceptional delay in 2010</p>	<p>Director of Finance. During 2010-11</p>

Background	Recommendations	Priority	College response	Responsibility /Timescale
<p>4. <u>European Fund</u></p> <p>There was an over claim of £10k in relation to the above.</p>	<p>It is recommended that the schedules be double checked to ensure that the correct amounts recoverable are included.</p>	<p>Low</p>	<p>The amount was disallowed following a verification check</p>	<p>Director of Finance. During 2010-11</p>
<p>5. <u>EMA Debtor</u></p> <p>The EMA debtor was understated by approximately £11k.</p>	<p>It is recommended that the schedules are double checked to ensure that the correct amounts are included.</p>	<p>Low</p>	<p>The debtor was calculated by deducting income from payments made. Transactions will be thoroughly checked.</p>	<p>Director of Finance. During 2010-11</p>

10. CURRENT ISSUES

10.1 Changes to measurement of price inflation in public sector pensions

On 22 June 2010, George Osborne, Chancellor of the Exchequer, announced a change of how price inflation will be measured for the purposes of annual increases in public sector pensions: from 2011, annual indexation will be accomplished by reference to the Consumer Price Index ("CPI") rather than the Retail Price Index ("RPI").

The impact of this has been accounted for by Hymans Robertson LLP in determining the actuarial valuation for the pension scheme as at 31 July 2010. In doing this they have prepared their valuation on the basis that the change from RPI to CPI is a change in benefit. The gain arising from this valuation has therefore been taken directly to the Income and Expenditure account, in accordance with FRS 17.

This accounting treatment is in line with others in the sector.

However, there is question as to whether the change from RPI to CPI should instead be treated as a change in assumption (rather than change in benefit). In this instance, the valuation would require to be reconsidered and any gain/loss arising would be included within the balance sheet valuation rather than within the income and expenditure account.

The Accounting Standards Board ("ASB") has met within the last few weeks and issued a draft UITF Abstract for consultation to decide upon whether the change should be classified as a change in benefit or a change in assumption. It is unlikely that this debate will be resolved prior to approval of the 2010 financial statements and therefore the adjustments have been accounted for as a change in benefit. Should there be a decision that this is a change in assumption, the valuation and accounts will require to reflect any change to the actuarial valuation through the 2011 financial statements.

We will continue to review the situation and will keep the College apprised of the situation in order that any changes can be acted upon accordingly.

10.2 ASB 'Policy Proposal: the future of UK GAAP'

The purpose of this consultation paper from the Accounting Standards Board (ASB) is to set out a proposed strategy for the future basis of UK GAAP and its convergence with International Financial Reporting Standards (IFRS).

The proposed approach is to work under the International Accounting Standards Board's (IASB) framework and to converge with IFRS to the fullest extent possible consistent with the needs of UK entities. The ASB's current intention is to issue an exposure draft withdrawing the separate body of literature currently referred to as UK GAAP and replacing it with new IFRS-based literature. Any modifications to the application in the UK of the underlying IFRS literature would be proposed at that stage.

The paper considers the future role of statements of recommended practice (SORPs) that are issued by industry or sectoral bodies that are recognised by the ASB. As a general principle, the ASB's view is that SORPs should only remain where there is a need arising from sector specific issues not covered by guidance in accounting standards. The proposal is to restrict the number of SORPs to which the ASB provides any endorsement.

The ASB intends issuing an exposure draft outlining its recommendations for the future of UK GAAP after considering the feedback on this paper.

It is noted that the SFC's expectation is that colleges will continue to converge with international financial reporting standards (IFRS) as UK GAAP converges over the next few years, and it appears likely that implementation will not take place before 2013. Consequently, it is highlighted that the transition timetables for IFRS that apply to the rest of the public sector do not therefore apply to colleges.

APPENDIX A

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

AYR COLLEGE

STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

The Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial period.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between the Scottish Funding Council (SFC) and the College's Board, the Board, through its designated office holder, is required to prepare financial statements for each financial period 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 period.

In causing the financial statements to be prepared, the Board 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;
- ◆ financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to:

- ◆ ensure that funds from SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and any other conditions which they have prescribed;
- ◆ ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- ◆ safeguard the assets of the College and prevent and detect fraud;
- ◆ secure the economical, efficient and effective management of the College's resources and expenditure.
- ◆ ensure sound corporate governance and 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;

AYR COLLEGE

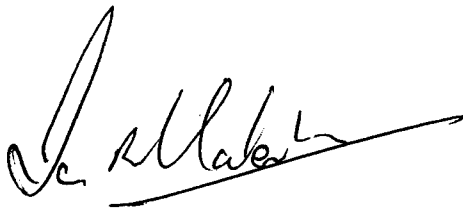
Statement of the Board of Management's Responsibilities (*continued*)

- ◆ regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- ◆ clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- ◆ comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Board;
- ◆ a professional Internal Audit team whose annual programme is approved by the Audit Committee whose head provides the Board 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 system 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 Management 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 Management to make itself aware of any relevant audit information and establish that the College's auditors are aware of that information.



I B Valentine

Chairman

10 December 2010

APPENDIX B

INDEPENDENT AUDITORS REPORT

AYR COLLEGE

Independent auditors' report to the members of the Board of Management of Ayr College, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements of Ayr College for the year ended 31 July 2010 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management, Accounting Officer and auditor

The Board of Management and the Accounting Officer are responsible for preparing the annual report and 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 and the Accounting Officer are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Accounting Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with the 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 2010; 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. 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 only the Operating and Financial Review, the Corporate Governance Statement and the Statement of the Board of Management's Responsibilities. 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.

AYR COLLEGE

Basis of audit opinions

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 Practice Board and 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 and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance 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 2010 and of its surplus, 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 2010; and
- funds from whatever source administered by the College for specific purposes have been properly applied for the intended purposes.

Wylie + Bisset LLP

Wylie & Bisset LLP
Chartered Accountants
Registered Auditors
Glasgow

10 December 2010

APPENDIX C

LETTER OF REPRESENTATION



10 December 2010

Messrs Wylie & Bisset LLP
Chartered Accountants
168 Bath Street
Glasgow
G2 4TP

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the charity's accounts for the year ended 31st July 2010.

1. We acknowledge as members of the Board of Management our responsibility for ensuring:
 - a) the financial statements are free of material misstatements including omissions
 - b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2010.
 - c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
 - d) all other records and related information, including minutes of all management meetings, have been made available to you.
 - e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and
 - f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.
2. We have appointed Scott Moncrieff as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you.
3. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
4. The College has no liabilities or contingent liabilities other than those disclosed in the accounts.
5. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.
6. There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.



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Ayr College is a charitable organisation registered in Scotland, Charity No. SC 021177

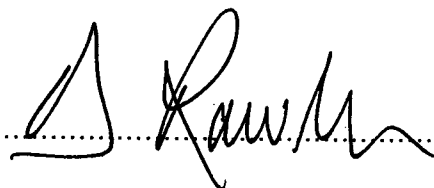
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7. The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.
8. We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.
9. The College has not contracted for any capital expenditure other than as disclosed in the accounts.
10. The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.
11. We are not aware of any irregularities, including fraud, involving management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.
12. We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.
13. We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.
14. We confirm that we have considered the attached unadjusted deviations. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by users of the accounts. The combined effect of the deviations is not material and we do not consider that their absence from the financial statements affects the true and fair view given.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully


..... Chairman


..... Principal & Chief Executive