

KILMARNOCK **COLLEGE**

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

NOVEMBER 2010

Wylie & Bisset LLP
CHARTERED ACCOUNTANTS
168 Bath Street
Glasgow

Date of commencement of Final Visit	13 September 2010
Date of Draft Report to College	28 September 2010
Date of Discussion re Draft Report	28 September 2010
Date of College Responses	28 September 2010
Date of Presentation of Report	30 November 2010

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GLOSSARY OF TERMS

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

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Kilmarnock College with effect from 1 August 2006 for a period of 5 years until 31 July 2011.
- 1.2 The Annual Report has been prepared following our audit of the financial statements of Kilmarnock College for the year ended 31 July 2010.
- 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 24 of the 'Code' states that the auditor's objectives are to:
 - Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
 - Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
 - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 An investigation is still in progress for the period to 2006/07 into the relationship between the College and associated bodies. The investigation is on-going and due to the significance of this matter the College wishes to disclose a potential liability which may affect the reported surplus for the year ended July 2007 or earlier periods. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements. The information usually required by FRS 12 is not disclosed on the grounds that any further statements on this issue may prejudice any potential legal action undertaken.

- 1.8 For the year ended 31 July 2010, in forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures in note 30 to the financial statements concerning a possible contingent liability relating to the above matter. We have in this regard included an emphasis of matter on the view given by the financial statements of the College for the year ended 31st July 2010.
- 1.9 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 – 2010
 - g) Management letter – 2009
 - h) Summary of deviations
- 1.10 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.11 Our audit work was designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.12 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.13 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.
- 1.14 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

Wylie & Bisset LLP

2. INTERNAL CONTROLS AND AUDIT APPROACH

- 2.1 In the course of our audit we planned to review the key elements of the College's systems of internal financial controls including the following areas;
- a) The College's medium and short term planning processes including budgets;
 - b) The College's review of key performance indicators, financial and management accounts;
 - c) The College's controls over income and expenditure;
 - d) The College's financial controls and procedures;
 - e) The input from the Audit Committee and the Finance Committee;
 - f) The College's internal audit service.
- 2.2 In planning our audit work we have taken into account the following:
- a) The Code of Audit Practice issued by Audit Scotland;
 - b) The Code of Audit Practice issued by SFC;
 - c) Guidance issued by Audit Scotland;
 - d) Guidance issued by SFC;
 - e) The College's internal control procedures;
 - f) The College's Corporate Governance procedures;
 - g) The College's approach to Value for Money;
 - h) The financial memorandum between SFC and the College.
- 2.3 In reaching our audit opinion we carried out our audit work based on the audit plan with evidence obtained by:
- a) Reviewing previous financial statements;
 - b) Reviewing internal audit plans and reports;
 - c) Discussions with senior management and staff at the College;
 - d) Completing appropriate audit programmes;
 - e) Carrying out analytical review procedures;
 - f) Carrying out substantive and compliance audit tests on a judgemental basis;
 - g) Reviewing the minutes of the principal College committees.
- 2.4 During the course of our external audit work no weakness in the College's internal financial controls were noted. One weakness is still noted in Section 9 in relation to the 2008/09 Management Letter. No weaknesses have been raised by the internal auditors in their annual report
- 2.5 The audit recommendations are included in the appropriate sections of this report. The recommendations have been graded as High, Medium or Low priority depending upon the degree of risk assessment for each recommendation. Each recommendation has a target date for remedial action and the person responsible for each recommendation has been nominated in the relevant Section.

3. FINANCIAL STATEMENTS

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

AUDIT REPORT

- 3.3 An investigation is still in progress for the period to 2006/07 into the relationship between the College and associated bodies. The investigation is on-going and due to the significance of this matter the College wishes to disclose a potential liability which may affect the reported surplus for the year ended July 2007 or earlier periods. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements. The information usually required by FRS 12 is not disclosed on the grounds that any further statements on this issue may prejudice any potential legal action undertaken. Therefore, we have noted an emphasis of matter on the view given by the financial statements of the College for the year ended 31st July 2010.
- 3.4 For the year ended 31 July 2010, in forming our opinion on the financial statements, which is not qualified, we have again considered the adequacy of the disclosures in note 30 to the financial statements concerning a possible contingent liability relating to the above matter.

FINANCIAL PERFORMANCE

- 3.5 The income and expenditure account shows an operating surplus for the year of £1,092,000. This is compared to a previous year deficit of £869,000. The College's financial budgets for 2009/10 had been produced on a planned deficit basis.

A change was made to the surplus presented for audit relating to an element of the FRS17 adjustment which was originally incorporated in the Statement of Total Recognised Gains and Losses, which was transferred into the I&E account.

The FRS 17 adjustments received by the College for 2009/10 from the Strathclyde Pension Fund have had a net effect of increasing the operating surplus by £619,000. The reason for the reduction in the Pension Liability for the College going forward is a technical inflation adjustment with the valuation methodology changing from the Retail Price Index (RPI) to the Consumer Price Index (CPI).

The remainder of the surplus has been generated by the College. The main reasons for the improved financial performance over the 2009/10 budget estimates include;

- A provision was made in 2009/10 for the costs associated with the implementation of the College job evaluation project. This was not required due to the revised implementation timeframe for job evaluation falling into 2010/11.
- A number of posts which were included in the organisational review process were not filled at the start of the Financial Year. The result of these delays generated savings. This represents a one year benefit to the College.
- The 2009/10 WSUMs target was originally set at the same baseline as 2008/09 i.e. 53,180 WSUMs. However, the SFC awarded an extra 1,433 WSUMs in-year to aid the College in meeting the extra demand for places following the economic downturn. The College delivered 54,411 WSUMs in 2009/10. This is 202 WSUMs below target or -0.37%.

The efficient delivery for 2009/10 has generated staffing savings over the budget set within the 2009/10 Curriculum Delivery Plan.

- The College made provision in 2008/09 for £180,000 in respect of non-payment of the additional fee waiver claim for that year. This additional claim was received in full during 2009/10 and as such the provision was reversed. This had the effect of reducing the expenditure in Central costs by £180,000. This is a significant contributor to the College surplus position for 2009/10.
- A number of other income and expenditure budgets were well managed during the year. Some income budget lines were over recovered against the budgeted estimate for 2009/10. Also, good management of costs on certain budget lines resulted in savings.
- The College incurred £698,000 in 2009/10 for exceptional restructuring costs. The majority of these costs relate to the 2008/09 Organisational Review process. The full review was not completed by the 31st July 2009 and as such the remainder of the associated costs were charged to 2009/10.

- 3.6 The College received £1,400,000 in 2008/09 from the Scottish Funding Council to be used for securing a new site for the College. During the year this amount was repaid to the Scottish Funding Council.
- 3.7 The deficit brought forward on the income and expenditure reserve at 1 August 2009 was £30,000. After the surplus for the year of £1,092,000, the transfer from pension reserve and the transfer from revaluation reserve are taken into account the surplus on the College's income and expenditure reserve at 31 July 2010 is £648,000.

SUBMISSION OF ACCOUNTS

- 3.8 The accounts were submitted for audit on 13 September 2010, in line with the agreed timetable. The accounts submitted for audit were substantially complete. Working papers provided have generally been of a high standard and queries arising from the audit have all been resolved. Key staff were readily available for consultation throughout the audit process. Our audit work is complete and we have reported accordingly.

ISSUES ARISING

- 3.9 An investigation is still in progress for the period to 2006/07 into the relationship between the College and associated bodies. The investigation is on-going and due to the significance of this matter the College wishes to disclose a potential liability which may affect the reported surplus for the year ended July 2007 or earlier periods. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

For the year ended 31 July 2009, in forming our opinion on the financial statements, which was not qualified, we had considered the adequacy of the disclosures in note 30 to the financial statements concerning a possible contingent liability relating to the above matter. This is again the case in the financial statements for the year ended 31 July 2010.

- 3.10 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.
- 3.11 At 31 July 2010 the College was due to repay £434,000 to the Scottish Funding Council in respect of Student Support Funds which had been received in advance but had been unspent in the year. This is due to be repaid by December 2010.
- 3.12 Pension / FRS 17: The pension liability in regard to the Strathclyde Pension Fund decreased by £865,000 to £2,581,000 based on the actuarial report commissioned by 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 2009/10 were BDO LLP.
- 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) On-line Attendance
 - b) Contracts, Tendering and Procurement
 - c) Budgetary Control
 - d) Nominal Ledger Accounting
 - e) Tuition Fees & Debtors
 - f) Follow up Review
 - g) ICT Review
 - h) Business Development
- 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 Annual Report from the College's internal auditors gave substantial assurance for the year. Internal audit reports on Business Development and an ICT review are outstanding at the date of this Annual report. The findings contained in these reports will have no impact on our audit opinion.

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 planned using a bespoke checklist. We also reviewed the following:

- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 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 that management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff. We found no matters therein to impact upon our audit opinion.

Recommendations

5.3 There were no recommendations in 2009 and no further recommendations in this area, this year.

6. VALUE FOR MONEY

Objective and Approach

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

Opinion

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

Recommendations

- 6.3 There were no recommendations in 2009 and no further recommendations in this area this year.

7. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

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

Opinion

- 7.5 An investigation is still in progress for the period to 2006/07 into the relationship between the College and associated bodies. The investigation is ongoing and due to the significance of this matter the College wishes to disclose a potential liability which may affect the reported surplus for the year ended July 2007 or earlier periods. The ultimate outcome of the matter cannot presently be determined.

For the year ended 31 July 2008, in forming our opinion on the financial statements we provided a disclaimer of opinion on the view given by the financial statements of the College.

- 7.6 Notwithstanding our disclaimer on the view given by the financial statements, we did not provide any qualifications on the regularity of transactions for the year ended 31 July 2008 and in our opinion, funds received had been applied for their intended purpose for the year then ended.
- 7.7 For the year ended 31 July 2009 and again for year ended 31 July 2010, in forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures in note 30 to the financial statements concerning a possible contingent liability relating to the above matter. We have

in this regard included an emphasis of matter on the view given by the financial statements of the College for the year ended 31st July 2010.

Recommendations

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

8. MANAGEMENT LETTER – 2010

- 8.1 The management letter for the year ended 31 July 2010 was issued by Wylie & Bisset following the audit for the year.
- 8.2 Of the 4 recommendations raised in 2009 management letter 1 is still outstanding.
- 8.3 No new recommendations have been raised from the 2010 audit.

9. MANAGEMENT LETTER – 2009 and prior

9.1 The recommendations following the audit for the year ended 31 July 2009 by us are detailed below.

Background	Recommendation	Priority	College Response	Responsibility /Timescale
a. During the year ended 31 July 2008 the College did not appear to have a formal policy for Board training. (Repeated from 2007).	<p>It is recommended that all Board members receive regular training and information to allow them to stay up to date with developments in the Sector and in the College itself.</p> <p>From discussion with senior management, we are aware that training is carried out on a regular basis and a formal procedure to cover both individual and group training is under development.</p> <p>We have downgraded priority of this item from medium to low.</p> <p>Findings on revisit:</p> <p>We note that formal training policy is now in place.</p> <p>We seek Audit Committee approval to remove this recommendation from the report. There is no further recommendation other than ongoing monitoring.</p>	<i>Low</i>	<i>None required.</i>	<i>N/A</i>
b. Our review of trade debtors found that £54k (47.5%) of trade debtor balances were overdue for a period greater than 150 days.	<p>It is recommended that appropriate credit control procedures are maintained to ensure debtor balances are recovered within the appropriate credit terms and to minimise the risk of bad debts.</p> <p>Findings on revisit:</p> <p>We note that a credit control procedure has now been</p>	<i>Low</i>	<i>None required.</i>	<i>N/A</i>

	<p>prepared and appropriate write offs are now made in line with documented procedure.</p> <p>We seek Audit Committee approval to remove this recommendation from the report. There is no further recommendation other than ongoing monitoring.</p>			
c. We note that the Irvine deposit account is not reconciled at 31 July 2009.	<p>We recommend that all bank reconciliations are carried out on a monthly basis.</p> <p>Findings on revisit:</p> <p>We note that bank reconciliations are now being carried out on a monthly basis for all bank accounts.</p> <p>We seek Audit Committee approval to remove this recommendation from the report. There is no further recommendation other than ongoing monitoring.</p>	<i>Low</i>	<i>None required</i>	<i>N/A</i>
d. Chiene & Tait have carried out an investigation into the relationship between the College and associated bodies. The results of this investigation have not yet been published.	<p>We recommend that the recommendations from the investigation are implemented as a high priority once the report has been finalised.</p> <p>Findings on revisit:</p> <p>We note that there have been no changes in the year and the original recommendation is still valid.</p>	<i>High</i>	<i>Ongoing</i>	<i>Chair of the Board of Management</i>

10. SUMMARY OF DEVIATIONS

10.1 During our audit work we identified one deviation which was adjusted for during the audit process. This was discussed with College management and it was agreed this should be amended accordingly. The table below outlines this deviation.

Nature of Deviation & Reason for it	Actual Deviation £	Adjusted I&E Effect £	Adjusted STRGL Effect £
Curtailment losses with respect to FRS17	91,000	(91,000)	91,000

10.2 During our audit work we identified no issues relating to control matters.

11. CURRENT ISSUES

11.1 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 or through the statement of total recognised gains and losses rather than within the income and expenditure account

The Accounting Standards Board (“ASB”) has met within the last next 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.

11.2 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 THE BOARD OF MANAGEMENT'S RESPONSIBILITIES**

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

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

The College's External Auditors have issued an unqualified audit report on the financial statements for the year ended 31 July 2010. In forming their opinion on the financial statements, which is not qualified, they have considered the adequacy of the disclosures in the financial statements concerning a possible contingent liability by way of emphasis of matter in the audit report. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

As a result of Governance and communication weaknesses identified by the College and the College's internal auditors the Board of Management structure has been reviewed. The Board of Management has been strengthened. The Board of Management considers that each of its non-executive members is independent of College management and free from any business or other relationship which could materially interfere with the exercise of independent judgement.

The Board of Management work closely with College Senior Staff and there are stronger communication links between the Board of Management and staff. College policies are communicated to College staff on a new and improved College intranet.

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 a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, 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 Management, subject to areas noted, 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 of Management 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.

Financial statements of the College may be published on the College's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the College's website is the responsibility of the Board. The Board's responsibility also extends to the ongoing integrity of the financial statements contained therein.

The Board of Management, subject to areas noted, has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the 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 prevent and detect fraud;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

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

- Clear definitions of the responsibilities of, and the authority delegated to, Managers of curriculum and service areas;
- 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 monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee;
- A professional Internal Audit service whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and who provide the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

However, any system of internal financial control is designed to manage rather than eliminate risks of failure to achieve operational objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In so far as the Board of Management are aware:

- (a) there is no relevant audit information of which the College's Auditors are unaware;
and
- (b) the Board have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

.....
Date: 14 December 2010

APPENDIX B**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF KILMARNOCK COLLEGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND**

We have audited the financial statements of Kilmarnock 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 , Accountable Officer and Auditor

The Board of Management and Accountable Officer are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of Board and Accountable Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We also report whether in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1st 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 report if, in our opinion, it does not. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the College's corporate governance procedures or its risk and control procedures .

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the College's circumstances, consistently applied and adequately disclosed.

We planned 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.

Opinion

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, 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; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder 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 1st 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.

Emphasis of matter – contingent liability

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures in note 30 to the financial statements concerning a possible contingent liability. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

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

Date