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Chartered Accountants

Oatridge College

Annual Audit Report for 2009/10 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2010/02

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Contents

Notice: About this report

This report has been prepared in accordance with our responsibilities under International Standards on Auditing (ISA) and those set out within Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only Oatridge College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes a valuation or legal advice.

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

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Executive Summary

Corporate Governance

- The Group has shown a surplus for the year of £0.774 million (2008/09 - £0.026 million), against an original budgeted surplus of £0.059 million set out in the 2009 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC) in June 2009. The income and expenditure account balance at 31 July 2010 (excluding pension liability) was a surplus of £3.460 million (31/07/09 - £3.119 million). The surplus for the year includes an exceptional Financial Reporting Standard (FRS) 17 pensions past service gain of £0.290 million (2008/09 - £nil) and a gain on disposal of tangible fixed assets of £0.310 million (2008/09 - £nil), off-set by exceptional restructuring costs of £0.046 million (2008/09 - £0.143 million).

- Estate improvement will be key in ensuring that corporate objectives and aims around the physical environment necessary to deliver a high standard of learning and teaching are met. Inadequate funding for the estates strategy is a significant risk for the College and the Board will need to continue to oversee the management of this risk.

- The College's Corporate Governance Statement confirms that the College has applied the principles set out in the 2008 Combined Code on Corporate Governance.

- The College operates with a small finance team with limited resources resulting in a lack of segregation of duties for some members of staff. This reduces the overall effectiveness of the College's internal control environment.

- The College's internal auditors have concluded that: 'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Oatridge College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work.'

- An annual engagement visit by Her Majesty's Inspectorate of Education (HMIE) was performed in May 2010 and this concluded positively on the processes in place at the College with one example noted of excellent practice.

Performance

- The College's Strategic Development Plan 2009/10 – 2011/12 sets out six key aims together with a number of objectives to be pursued to enable each of the aims to be realised.

- The Board of Management and its committees consider the College's performance in implementing its strategic objectives. The Strategic Development Plan includes Key Performance Indicator targets for 2009-2012 covering a range of indicators under the headings effectiveness, efficiency and enrolment.

- Team Quality Improvement Plans are drawn up incorporating both the self-evaluation and team annual planning processes. Achievement against the Quality Improvement Plans is monitored at the end of each block.

Executive Summary

Performance (Cont'd)

- The College has an on-going process for identifying, evaluating and managing its significant risks. The College has in place a formal approved Policy and Procedure for Risk Management

- The Board of Management discussed and approved the College's Sustainability Framework and Balanced Scorecard at its meeting on 22 March 2010 and these were subsequently submitted to the SFC.

- There is an ongoing material risk to the FE sector in relation to how the global economy will perform which could affect the College's commercial income. In addition, the Government's Strategic Spending Review highlighted significant public spending cuts which will impact on the College's future grant income and is likely to affect consultancy and training income, as some of these services are provided to public sector bodies.

- The College has undertaken a comprehensive strategic review of all of its activities and in particular addressed the long-term sustainability of the College. As a result of this review the Board of Management has taken the difficult decision to close down its facility at Suntrap Garden near Edinburgh, which provided courses for learners with learning difficulties. All activities ceased at the facility on 31 August 2010 and provision for redundancies has been made in the 2009/10 financial statements.

- The College is involved in a strategic project 'Going Further', supported by the SFC, working in collaboration with Barony College, Elmwood College and the Scottish Agricultural College. The project aims to develop a national, integrated solution for the tertiary education and training needs of the land-based sector and pursue synergies from across the institutions.

Financial Statements

- On 13 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2010 and on the regularity of the financial transactions reflected in those financial statements.

- The annual 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.

- A number of audit adjustments have been made to the unaudited financial statements. These have been agreed with the College's Finance Manager. A number of disclosure adjustments were also made to the financial statements to ensure compliance with the Accounts Direction and SORP.

- The College has exceeded its WSUMs target for 2009/10 by 1,818 WSUMs (13.2%); (2008/09: exceeded by 942 WSUMs – 6.9%).

HENDERSON LOGGIE

Introduction

Background

1. 2009/10 was the fourth year of our five year appointment as external auditors of Oatridge College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance.

2. The framework under which we operate under appointment by Audit Scotland is as outlined in our Strategic Planning Memorandum and 2009/10 Annual Audit Plan issued on 4 May 2010 and considered and approved by the Audit Committee on 17 May 2010. 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.

3. Our audit approach focused on the identification of the significant risks 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;

   - fixed assets transactions, including proper classification of expenditure; the treatment of proceeds from asset disposals; and compliance with relevant financial reporting standards;

   - recoverability of debtors;

   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;

   - achievement of commercial income target;

   - compliance with FRS 17 Retirement Benefits; disclosure of the material impact of moving from the Retail Price Index (RPI) to the Consumer Price Index (CPI) for future pension increases; and calculation of the provision for pension liabilities for early retirals;

   - the financial results of the College's subsidiary company and the impact on the Group financial statements; and

   - compliance with the SORP on Accounting for Further and Higher Education.

Introduction

Basis of Information

4. 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.

5. 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.

Acknowledgement

6. 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.

Financial Position

7. SFC circular SFC/31/2009, issued on 16 October 2009, defines a sustainable college as one which 'continually develops the quality of its learning activities to meet the changing needs of its customers, society and the economy, control its costs, and year on year secures sufficient income to resource its planned activities and enable a level of current and future investment necessary to maintain its assets.'

8. Table 1 provides a summary of the College's planned and actual financial results, based on the formal returns submitted, by the College, to the Funding Council. The actual results for 2009/10 include an exceptional FRS 17 pensions past service gain of £0.290 million (2008/09 - £nil) and a gain on disposal of tangible fixed assets of £0.310 million (2008/09 - £nil), off-set by exceptional restructuring costs of £0.046 million (2008/09 - £0.143 million).

Table 1: Comparison of planned and actual financial results

	2008/09 Actual £000	**2009/10 Planned £000**	**2009/10 Actual £000**	**2010/11 Planned £000**
Financial outturn:				
Surplus (excluding exceptional items)	169	59	220	30
FRS17 pension credit	-	-	290	-
Restructuring costs	(143)		(46)	-
Gain on sale of assets	-	-	310	-
Surplus (including exceptional items)	26	59	774	30
Income and expenditure reserves (excluding pension liability)	3,119	3,578	3,460	4,110
Cash balances	1,541	1,642	2,519	2,045

Source: Audited financial statements and 2009 and 2010 FFR

9. Overall, College income in 2009/10 has decreased by £0.083 million (1.3%) over 2008/09 to £6.290 million. There has been a significant decrease of £0.106 million (3.1%) in SFC grants to £3.269 million. The main components of this are an increase of £0.080 million (2.8%) in recurrent grant, a decrease of £0.076 million (26.5%) in other grants and a decrease of £0.128 million (100%) in grants for capital projects treated as revenue.

10. Higher education and further education fee income have increased by a total of £0.107 million (42.6%) in 2009/10 to £0.358 million. This has been offset by a decrease in education contracts income of £0.078 million (13.3%) to £0.507 million.

11. Other grant income shows an increase of £0.060 million on 2008/09 to £0.134 million. The increase is due to the receipt of European funds of £0.099 million during 2009/10 (2008/09 - £nil), which has been offset by a decrease in the release of non-SFC deferred capital grants.

Financial Position (Cont'd)

12. 'Other' income, which includes residences and catering income and income generated from the operation of the Scottish National Equestrian Centre, shows only a small decrease on last year (£0.042 million) to £2.011 million. Residences and catering income includes income from a contract that attracts a significant number of language students to the College during the vacation period.

13. Expenditure in 2009/10, excluding exceptional restructuring costs, decreased by £0.424 million (6.8%) over 2008/09 to £5.780 million. This was primarily due to the exceptional FRS 17 non-cash adjustment relating to the Government's decision to link future pension increases to CPI rather than RPI which gave rise to a past service gain of £0.290 million; and a decrease in other operating expenses of £0.145 million (5.5%) to £2.504 million.

14. Staff costs have increased by £0.036 million (1.2%) over 2008/09 to £3.035 million. Staff were awarded an average pay increase of 3% from 1 August 2009 although this has been partly offset by a decrease in staff numbers (FTEs) from 87 last year to 86 in 2009/10.

15. The main components of the decrease in other operating costs are a £0.062 million (18.5%) decrease in teaching activities, a £0.148 million (17.1%) decrease in other income generating expenses and a £0.067 million (18.6%) increase in administration and academic services. There has been a general programme of cutbacks and saving money where possible during the year.

16. The College's cash balance at 31 July 2010 was £2.493 million, an increase of £1.000 million (67.0%) on the previous year mainly resulting from an increase in cash flow from operating activities, proceeds from the sale of assets and capital grants received. The cash balance includes proceeds of £0.653 million from land sales in recent years which are being held for re-investment in the College estate.

2009/10 SUMs outturn

17. The College's outturn against its 2009/10 WSUMs target is shown in table 2.

Table 2: 2009/10 WSUMs outturn

	2008/09	2009/10
WSUMs target	13,740	13,740
WSUMs actual	14,682	15,558
Excess	942	1,818

Source: Audited SUMs returns

18. The College's internal auditors carried out the audit of the SUMs return for 2009/10. 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.

Financial Position (Cont'd)

FRS 17 Retirement Benefits

19. 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 shown on the balance sheet. This is consistent with the accounting treatment adopted in 2008/09.

20. Note 24 to the financial statements highlights the College's net pension liability position of £0.763 million within the LPF. This has moved significantly in the year from a net pension liability of £0.979 million at 31 July 2009. This change in financial position results mainly from the Government's announcement in June 2010 that future pension rate increases will be based on CPI rather than RPI, leading to decreased liabilities. The Accounting Standards Board's Urgent Issues Task Force (UITF) issued an Information Sheet on 13 October 2010 providing draft guidance on the accounting implications of the Government's decision. Based on this guidance we consider that there has been a change in the obligation to the members, giving rise to a benefit change which should be accounted for as a past service cost. We also consider that this should be recognised in the accounting period to 31 July 2010 as the scheme members' expectations had already been modified at that date.

21. Further changes in the assumptions affecting the actuarially determined liability balance are shown in 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 £0.032 million (2008/09 – £0.001 million interest expense).

Table 3: LPF financial assumptions

	31 Jul 10 % p.a.	31 Jul 09 % p.a.
Pension increase rate	2.9	3.7
Salary increase rate	4.9	5.2
Expected return on assets	6.7	6.9
Discount rate	5.4	6.0

Source: LPF actuarial valuation for FRS 17 purposes at 31 July 2009 and 31 July 2010

22. With the exception of liabilities arising from early retirals, 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. This is consistent with the accounting treatment adopted in 2008/09.

Financial Position (Cont'd)

Capital Income and Expenditure

23. Capital expenditure during 2009/10, which relates to the purchase of vehicles, plant and equipment, has been relatively light at £0.049 million (2008/09 - £0.272 million).

24. In November 2009 a company in which a member of the Board of Management is a shareholder completed the acquisition from the College of a piece of land that had been placed on the open market. The land was sold under sealed tender with the highest bid being accepted. This resulted in a gain on sale of assets of £0.308 million net of legal fees. The Board member concerned was excluded from all Board discussions in relation to the sale.

25. The College's Estates Strategy is to carry out back-log maintenance and selective repair to buildings that will be retained; relocate the Animal Care Unit; and remodel the Farm. The capital cost of this option was estimated at £8.1 million in December 2007. It is anticipated that the College can contribute approximately £1 million towards the Farm reconstruction costs, depending on the sale of surplus properties (£0.653 million has been raised from land sales to date), with the balance to be funded from other sources. As the works will be 'finance driven' the critical and high priority health and safety and Disability Discrimination Act works will be tackled first. Estate improvement will be key in ensuring that corporate objectives and aims around the physical environment necessary to deliver a high standard of learning and teaching are met. Inadequate funding for the estates strategy is a significant risk for the College and the Board will need to continue to oversee the management of this risk. It is noted that a new joint Estates Strategy is to be developed with Scotland's other countryside colleges as part of the 'Going Further' project (refer paragraph 64 below).

26. The College has been awarded a grant of £0.200 million from the Scottish Rural Development Program as a contribution towards capital works in the region of £0.700 million on a new cattle building and stables. It had been expected that this work would commence in 2009/10 however the actual start date was August 2010. A Project Management Group has been set up including members of the Board of Management.

27. As reported last year, the current fixed asset registers are updated annually on a spreadsheet and are very basic. The maintenance of a more detailed fixed asset register should again be considered.

Provisions

28. The College has a provision in its balance sheet for £0.092 million (2008/09 - £0.092 million) relating to pension costs from early retirements awarded to former employees. The provision has been updated at 31 July 2010 using the actuarial tables provided by the SFC.

Corporate Governance

Systems of Internal Control

Control Environment

29. Our work undertaken in relation to the 2009/10 financial statements audit, as in previous years, identified some control weaknesses in the operation of financial controls and procedures. These related mainly to a lack of segregation of duties.

30. The College operates with a small finance team with limited resources resulting in a lack of segregation of duties for some members of staff. This reduces the overall effectiveness of the College's internal control environment.

31. The College's debt management arrangements, previously hampered by limited staff resources, have improved in the year with a member of staff now dedicated to debt collection.

32. Review of bank reconciliations during our interim audit noted that although these had been prepared monthly there were differences that had not been fully investigated. The year-end bank reconciliation had however been fully reconciled.

Internal Audit

33. 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. Wylie & Bisset LLP provided internal audit services to the College in 2009/10. 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.

34. The College's internal auditors have concluded that: 'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Oatridge College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work.'

Her Majesty's Inspectorate of Education (HMIE)

35. We are also required by Audit Scotland's Code of Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.

36. The College received a positive report from HMIE following its annual engagement visit conducted in May 2010. It was noted that further developments were underway in some areas including increased use of blended learning and the virtual learning environment. The College's woodland pathway and community orchard project was noted as an example of excellent practice.

Corporate Governance

Corporate Governance Arrangements

37. The College has developed its corporate governance arrangements over recent years and, during 2009/10, the Board of Management carried out a self-evaluation exercise. Board members continued to attend relevant training sessions, including those run by Scotland's Colleges. The corporate governance arrangements were reviewed by the College's internal auditors during the year who confirmed that these were 'strong'.

38. On 30 September 2010 Audit Scotland published a report on The Role of Boards, which looks at the role boards play in overseeing the performance of different types of public bodies and will be of interest to College Board members. In due course Audit Scotland will be asking auditors to follow-up the report and summarise what action public bodies have taken in response and if they have implemented the reports recommendations.

39. Other sector-wide developments include the working group convened by Scotland's Colleges, the SFC and the Chartered Institute of Public Finance and Accountancy to support the development of a bespoke framework of governance for the College sector. In May 2010 the working group produced a consultation draft of a document entitled Delivering Good Governance in Scotland's Colleges: A Framework. The framework is based on The Good Governance Standard for Public Services and incorporates the elements of the Financial Reporting Council (FRC) Combined Code on Corporate Governance that are relevant to the sector. It is envisaged that the framework will replace the Guide for College Board Members published by the Association of Scotland's Colleges in 2006.

Corporate Governance Statement

40. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

41. 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 controls.

42. The College's corporate governance statement for 2009/10 states that the College complies with all the provisions of the June 2008 Combined Code on Corporate Governance in so far as they apply to the further education sector, and it complied throughout the year ended 31 July 2010.

43. Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.

44. In May 2010 the FRC issued a new edition of the Code, renamed the UK Corporate Governance Code, which will apply to financial years beginning on or after 29 June 2010.

Corporate Governance

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

45. During 2009/10 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

46. The College has appropriate arrangements in place, including current versions off its Standing Orders, Financial Regulations, Whistleblowing Policy and Procedure, Fraud Policy and Treasury Management Policy. These documents are reviewed and updated periodically.

Performance

Introduction

47. 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.

48. No performance audit studies were identified by Audit Scotland for the College during 2009/10.

Strategic and Operational Plan

49. The College has a three-year Strategic Development Plan covering the period from 2009/10 to 2011/12, which was approved by the Board of Management in December 2009. The Plan sets out six key aims together with a number of objectives to be pursued to enable each of the aims to be realised. The Strategic Development Plan is supported by the following College strategies: Estate; Human Resources; ICT; International; Knowledge Transfer and Employer Engagement; Learning and Teaching; Marketing; and Quality Enhancement.

50. Team Quality Improvement Plans are drawn up incorporating both the self-evaluation and team annual planning processes. Trend performance indicator data and student satisfaction data is provided at the beginning of the document to inform the self-evaluation. An action plan is prepared incorporating actions identified from the self-evaluation and also other actions that are necessary for teams to meet targets set for the next 12 months from the College's Strategic Development Plan.

Risk Management

51. The College has in place a Policy and Procedure for Risk Management and a Risk Register, which is linked to the strategic objectives. The Audit Committee examines the key risks on a rotational basis to identify any changes to the raw risk score or present risk rating and also identify any further action that should be taken. The 'action owner' is noted on the Risk Register.

52. Internal audit reviewed the College's risk management arrangements during the year and concluded that they were 'strong'. The internal auditors also provided risk management training to academic and support Team Leaders.

Performance Management

53. The Board of Management and its committees consider the College's performance in implementing its strategic objectives. A formal review of progress against the Strategic Development Plan 2008/09 – 2010/11 objectives was carried out when developing the Strategic Development Plan 2009/10 – 2011/12. This review highlighted specific achievements made during the planning period. Strategic development issues for 2009/10 were also noted and taken forward into the updated Plan.

54. The Strategic Development Plan 2009/10 to 2011/12 includes Key Performance Indicator targets for 2009-2012 covering a range of indicators under the headings effectiveness, efficiency and enrolment.

55. Achievement against the Quality Improvement Plans is monitored at the end of each block. Teams are required to provide senior management with a written update on achievement against each of the targets set.

Performance Management (Cont'd)

56. In October 2009 the SFC issued guidance on developing a sustainability framework under cover of SFC/31/2009. The sustainability framework is a statement endorsed by the Board of Management to explain how and why they consider the College to be sustainable. It should incorporate performance measures presented in the form of a balanced scorecard using the listing of the core performance indicators provided at Annex D of SFC/31/2009, which should also be included within the College's Operating and Financial Review. The framework requires to be produced as a supplement to the main Strategic Plan. SFC/31/2009 also required colleges to confirm that they have conducted appropriate scenario planning in light of possible reductions in public funding and the wider implications of changing economic conditions.

57. A Strategic Planning Group was set up by the College to take this matter forward and the Board of Management discussed and approved the College's Sustainability Framework and Balanced Scorecard at its meeting on 22 March 2010 and these were subsequently submitted to the SFC.

Financial Management

58. Monthly management accounts are prepared and reviewed by the Finance team and senior management. Financial monitoring reports are also presented to the College's Finance and Resources Committee for consideration.

59. The format of the monthly financial reports includes a comparison of actual v budget for revenue income and expenditure, a cashflow rolling forecast and a note of actual capital spend and grant income received. A balance sheet is prepared six monthly. A commentary on variances is provided.

60. The College does not operate a commitment accounting system at present or provide budget holders with on-line view only access to the financial ledger. We reported last year that given the forecast financial position over the next few years good quality, timely budget monitoring information will be essential. It was recognised that there would be resource implications in enhancing the current finance system to provide the above features however we recommended last year that this should be considered together with the roll out of e-Procurement by 'APUC' (Advanced Procurement for Universities and Colleges), which is due in 2011.

61. There is an ongoing material risk to the FE sector in relation to how the global economy will perform which could affect the College's commercial income. In addition, the Government's Strategic Spending Review, released on 13 October 2010, highlighted significant public spending cuts which will impact on the College's future grant income from the SFC and is likely to affect consultancy and training income, as some of these services are provided to public sector bodies or to organisations who receive significant funding from the public sector.

62. In response to SFC/31/2009 the College undertook a comprehensive strategic review of all of its activities and in particular addressed the long-term sustainability of the College. As a result of this review the Board of Management has taken the difficult decision to close down its facility at Suntrap Garden near Edinburgh, which provided courses for learners with learning difficulties. All activities ceased at the facility on 31 August 2010 and provision for redundancies has been made in the 2009/10 financial statements.

Performance

Financial Management (Cont'd)

63. The College is forecasting a small surplus of £0.010 million for Equestrian Facilities Scotland Ltd (EFSL) for 2010/11 and 2011/12. The company has been operational since February 2007 and the financial statements for the third full year of trading in 2009/10 show a deficit of £0.010 million (deficit £0.012 million for 2008/09). A number of factors have affected the results to date including the fact that EFSL applies the Group policy of writing-off all equipment costing less than £0.010 million per individual item to the income and expenditure account in the period of acquisition. The loss of key members of the management team in prior years continues to affect the results of EFSL although a new temporary management structure has been put in place. Also, the poor current general economic conditions has impacted on results, particularly in relation to income from corporate events. A review of the company's staffing structure has been undertaken with a view to reducing costs.

64. The College is involved in a strategic project 'Going Further', supported by the SFC, working in collaboration with Barony College, Elmwood College and the Scottish Agricultural College. The project aims to develop a national, integrated solution for the tertiary education and training needs of the land-based sector and pursue synergies from across the institutions. This will involve the development of a joint capital investment plan that will support and drive forward the consortium, particularly joint curriculum developments.

Efficient Government Initiative (EGI)

65. The College submitted updated EGI information schedules to the SFC in January 2010. This showed total annual efficiencies of £0.064 million for 2008/09 and a forecast of £0.064 million for both 2009/10 and 2010/11. The largest efficiencies relate to: the introduction of a 'one stop shop' for student support; working together with other rural colleges to market land-based courses; replacement of the oil heating system with gas; and investing in essential core equipment to avoid expensive hire charges. At the date of this report the quantification of actual savings for 2009/10 was not available. This information will be included on the return to the SFC due to be submitted in January 2011.

Value for Money (VFM)

66. The College has a VFM Policy which sets out objectives and responsibilities in relation to the achievement of VFM and this was updated in December 2007.

67. The College's benchmarking activities, including review of data provided by the SFC, help identify possible areas for improvement action. The College also makes use of available purchasing consortium arrangements.

68. One VFM review was carried out by the College's internal auditors during the year:

VFM – Teacher Utilisation

- The internal auditors concluded that systems and procedures used by the College are 'substantial' in this area although highlighted a number of weaknesses or areas for potential improvement. One medium and three low priority recommendations were made which are being actioned by management. These mainly related to the operation of the College's electronic timetabling system.

Financial Statements

Audit Opinion

69. On 13 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2010 and on the regularity of the financial transactions reflected in those financial statements.

Audit Completion

70. 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 at the time of the final audit visit. These were largely complete for financial information although the Board of Management's OFR and Corporate Governance statements had still to be drafted. An updated draft of the financial statements incorporating the agreed audit adjustments, the OFR and Corporate Governance statement was not received until 18 November 2010.

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 set of supporting working papers was provided, largely in line with this list, during the course of the audit.

Response to audit queries
We are pleased to note that all audit queries were dealt with in a timely manner during our audit fieldwork however pressure of work meant that there was a delay in receiving answers to our final outstanding points.

Audit Adjustments and Confirmation

71. In table 5 we draw attention to the agreed audit adjustments to the financial statements made by management following the audit process. Explanations for the two material adjustments are noted at paragraphs 73 and 74 below. Four further trivial adjustments were not processed.

Table 5: Audit adjustments – impact on the financial statements

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
Plant & equipment - Cost			23	
Equipment purchased		23		
Depreciation charge	6			
Plant & equipment – Agg. Depn.				6
Other income	1			
Trade debtors				1
Cash at bank			6	
Deferred income				6
Deferred capital grants			2	
SFC grant income		2		
Revaluation reserve			15	
Income and expenditure A/C				15
Deferred capital grants			302	
Deferred income				302
Income and expenditure A/C			290	
FRS17 pension credit		290		
Deferred income			16	
Residency income		16		
Salaries	5			
Other professional services	5			
Accruals				10
Accrued income			11	
Other income		11		
	17	342	665	340

72. In addition, a number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation.

73. The financial statements received for audit showed the exceptional FRS 17 non-cash adjustment of £0.290 million relating to the Government's decision to link future pension increases to CPI rather than RPI through the Statement of Total Recognised Gains and Losses. Following discussion of the UITF draft Information Sheet (refer paragraph 20 above) with College management, this was amended to show as an exceptional past service gain through the Consolidated Income and Expenditure Account. This had the effect of increasing the College's surplus for the year by £0.290 million although there was no overall impact on the Income and Expenditure Account reserve in the Balance Sheet.

Financial Statements

Audit Adjustments and Confirmation (Cont'd)

74. SFC capital formula grant income of £0.302 million received for 2009/10 was included in deferred capital grants at 31 July 2010 in the financial statements received for audit. This had not however been allocated against capital expenditure at that date and should have been included as deferred income under creditors due within one year. This adjustment had no overall impact on the College's Balance sheet and no impact on the surplus for the year.

Confirmations and Representations

75. We confirm that as at 10 December 2010, 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.

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