South Lanarkshire College

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

Audit for the year ended 31 July 2010

CONTENTS

The contacts at BDO in connection with this report are:

Robert Ralston	**Gordon Kerr**
Partner	Senior Manager
Tel: 0141 249 5214	Tel: 0141 249 8453
Fax: 0141 248 1653	Fax: 0141 248 1653
robert.ralston@bdo.co.uk	gordon.kerr@bdo.co.uk

EXECUTIVE SUMMARY

Financial Highlights

The College achieved an operating surplus of £13k (2009 £21k) on its income and expenditure account for the year prior to FRS 17 adjustments for the Strathclyde Pension Scheme. On 22 June 2010 the Chancellor announced a change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI). In accordance with the treatment recommended by Hymans Robertson LLP, the effect of this change has been taken through income and expenditure account as a negative past service cost of £370k. The net effect of the FRS17 adjustments in total is a credit of £298k (2009 debit of £16k) to income and expenditure account taking the overall surplus for the year to £311k (2009 £5k).

The financial statements disclose total reserves of £535k (2009 £81k) including a deficit on the pension reserve of £882k (2009 £1.323m). The 2010/11 financial forecast return anticipates a surplus of £15k, excluding adjustments in relation to FRS 17.

Corporate Governance

From our review of Corporate Governance arrangements within the College, we do not believe the Corporate Governance statement to be either misleading nor inconsistent with other information made available to us during the course of the audit process. The Corporate Governance statement does not disclose any significant weaknesses in the systems of internal control.

Internal auditor (Wylie & Bisset LLP) concluded that they were able to provide the Board of Management with "reasonable assurance that there are no major weaknesses in the College's risk management, control and governance processes which we have reviewed".

The Operating and Financial Review provides a comprehensive account of the College's activities and meets the requirements of the Statement of Recommended Practice 'Accounting for Further and Higher Education 2007 ("SORP 2007")'.

Financial Statement Audit

We have completed our audit work in respect of the financial statements of the College and are satisfied that they present a true and fair view of its financial position for the year ended 31 July 2010. Following approval of the financial statements by the Board of Management on 8 December 2010 our audit report will express unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2010 and (ii) regularity.

In preparing the accounts on a going concern basis, the Board of Management is satisfied that the SFC will provide sufficient funding to enable the College to operate for at least 12 months from the signing of the accounts.

The 2009/10 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

OVERVIEW, SCOPE AND INDEPENDENCE

Overview

• The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of South Lanarkshire College ('the College') for the year ended 31st July 2010.

• This report covers those matters we believe to be material in the context of our work. It was prepared from general information obtained during the audit process, including management accounting information and discussion with management and staff of the College. It has been prepared solely for the use of the College and the Auditor General for Scotland and should not be shown to any other person without our express permission in writing. We do not accept responsibility for this report to any other person and we hereby disclaim any and all such liability. We do not, in preparing this report, accept or assume responsibility for any other purpose or to any other person to whom it is shown or into whose hands it may come save as expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so at entirely their own risk.

• The corporate governance statement within the College's financial statements states that the College has been fully compliant with guidance on corporate governance for the year ended 31 July 2010. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Significant Accounting and Audit Issues

Detailed below are the key accounting and audit issues identified during our work:

•SUMs achievement

•Financial outturn

•FRS 17 – CPI

•Fee Waiver Claim

•Accounting for Eco House Donations

OVERVIEW, SCOPE AND INDEPENDENCE
Continued...

Unadjusted Audit Differences

We are required by International Standard on Auditing (UK & Ireland) 260 to bring to your attention audit adjustments that we have identified but we are not proposing to adjust and which the Board of Management is required to consider. A schedule of such adjustments is included in Appendix 1. We have not included items under £1,200 which we consider to be clearly trivial. Total unadjusted audit differences identified by our audit work would decrease the surplus of £311k by £5k. The Board will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole.

Scope

The accounting rules and regulations applied to Further Education Colleges are specifically laid out in various documents as discussed on page 9 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents.

We can confirm that in preparing the financial statements the College has complied with the Accounts Direction for Scotland's colleges and universities issued under circular SFC/35/2008.

The audit of South Lanarkshire College was performed 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. This report has been issued to College management and will be considered by the Audit Committee.

OVERVIEW, SCOPE AND INDEPENDENCE
Continued...

Independence

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to “those charged with governance”. This term refers to the Board of Management in our view and we confirmed our independence to them in a letter on 15 April 2010.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our Conduct of Professional Services Manual. In addition, we have issued supplementary written guidance and embedded the requirements of the Standards in our internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgment, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

AUDIT FRAMEWORK

South Lanarkshire College East Kilbride

Audit Framework

Audit Framework

BDO LLP was appointed by Audit Scotland as external auditor to South Lanarkshire College for 5 years covering the financial years 2006/07 to 2010/11. This year was the fourth of the five-year appointment by the Auditor General for Scotland as external auditors of South Lanarkshire College ("the College"). This report to the College Board of Management and Auditor General for Scotland provides our opinion and highlights issues arising from our work in relation to our audit work for 2009/10 and details how the requirements of the "Statement of Responsibilities and the Code of Audit Practice" have been met by the College and by BDO LLP .

Audit Bodies

- The Auditor General, a royal appointment on the nomination of the Scottish Parliament, plays a key role in holding the Scottish public spending bodies to account for the proper, efficient and effective use of public money.
- Audit Scotland is an independent statutory body which was set up in April 2000 to provide assistance and support to the Accounts Commission and to the Auditor General for Scotland in the exercise of their respective functions. The Auditor General is responsible for securing the audit of the Scottish Executive, Further Education Colleges and other public bodies.

College Responsibilities

The College is publicly accountable for the conduct of business and the stewardship of funds under its control. The College's Board of Management is therefore responsible for:

- establishing adequate corporate governance procedures;
- ensuring funds from the SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which the SFC may from time to time prescribe;
- ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguarding the assets of the College and taking reasonable steps to prevent and detect fraud and other irregularities;
- securing the economical, efficient and effective management of the College's resources and expenditure;
- maintaining proper accounting records and preparing financial statements which give a true and fair view of the financial position of the College at the year-end and its income and expenditure for the year.

BDO

AUDIT FRAMEWORK
Continued…

Audit Framework

Auditor's Responsibilities and Approach

We are required to report to the Board of Management of the College and to the Auditor General for Scotland on the financial statements of the College. Our responsibilities are to:

- provide an opinion, to the extent required by the relevant authorities, on the financial statements 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 requirements of Audit Scotland's Code of Audit Practice (March 2007), regarding the College's corporate governance arrangements relating to:
  - the College's review of its systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct, and prevention and detection of corruption
  - its financial position.
- obtain an understanding of the accounting and internal control systems in place in the College sufficient to allow the audit to be planned and an effective audit approach developed.

Our audit work is designed to enable us to form an audit opinion on the financial statements of the College and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to the financial statements.

AUDIT FRAMEWORK
Continued…

Audit Framework

College Guidance

We took reasonable steps to plan and carry out the audit to ensure that the above responsibilities were met and that we complied with the requirements of Audit Scotland's Code of Audit Practice.

In essence the scope of our work is similar to that applied to a limited company audit, however, the accounting rules and regulations applying to Further Education Colleges are specifically laid down in various documents as detailed below.

Financial Memorandum

This memorandum sets out the terms and conditions under which the Scottish Funding Council will make payments to the Board of Management of Colleges of Further Education out of funds made available by the First Minister of Scotland. Our audit procedures identified no factors that would lead us to believe that the college does not comply with the terms and conditions of the financial memorandum.

Accounts Direction

In preparing its annual accounts the College is required to comply with the directions of the Scottish Funding Council (SFC). The Accounts Direction is designed to ensure that disclosures in the financial statements of all colleges follow best practice. We can confirm the College's financial statements comply with the Accounts Direction.

Guidance on Audit

In carrying out our audit work we are also required to comply with International Standards on Auditing (UK and Ireland) and to take cognisance of any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board. We also comply with relevant ethical standards and guidance issued or adopted by the relevant professional accountancy bodies and any supplementary guidance issued by Audit Scotland.

Statement of Recommended Practice (SORP)

We can confirm that the financial statements of the College are in general in compliance with the requirements of the 2007 SORP.

FINANCIAL HIGHLIGHTS

Key areas	Summary
Financial Highlights	• **Income and Expenditure Account:** The College achieved a surplus of £311k, 2.5% of total income in respect of the year-ended 31 July 2010 (2008/09: £5k and 0.0%, Forecast: £51k and 0.4%). The increase represented a £306k increase on the prior year and a £260k increase on forecast. The main reason for the increased surplus compared to the original budget relates to the incorporation of the FRS 17 adjustments for the Strathclyde Pension Scheme which resulted in a credit to Income and expenditure account of £298k. **Balance Sheet:** The financial statements report net assets at 31 July 2010 of £27.6m (31 July 2009: £27.7m). As such, total net assets are comparable with the prior year.
Cash Flow	During 2009/10, the College experienced a net inflow of cash of £228k (2008/09: outflow of £166k).
Financial Forecast	The initial 2009/10 financial plan forecasted a surplus of £51k. The difference between that which was forecast and achieved is largely explained by the FRS 17 year-end adjustment which resulted in a credit of £298k to the I&E. The forecast for the College for 2010/11 shows a surplus of 15k (taking no consideration of the FRS 17 adjustment as this is difficult to predict). Cash is forecast to fall by a further £70k to reach £1.8m by 31 July 2011.

FINANCIAL HIGHLIGHTS
Income and Expenditure Account

Income

- The table below summarises the main sources of income for 2009/10 and 2008/09.
- The College's WSUMs target for 2009/10 was 42,153 and there have been no issues over the delivery of this. As a result, the College will not be liable to refund any amounts received in 2010/11.
- A significant proportion of income (76%) is received from the Scottish Funding Council and the SFC income has fallen slightly from 2009. This proportion of SFC Grant income is normally in the region of 76% of total income, based upon SFC 2007/8 statistics for colleges delivering over 45,000 SUMs.
- The decrease in SFC Grants of £178k is mainly as a result of a lower level of non-recurrent grant funding. This is due to the fact that in the prior year there was a release of £396k of deferred non-recurrent grant funding.
- The increase in Tuition Fees and Education Contracts of £211k is mainly as a result of an increased offering of Higher Education courses (2010: 619k; 2009: 400k). This reflects the deliberate strategy of the College to move into delivering more HE courses as it was felt that the College was previously light in this area.
- The decrease in Other Income of £72k reflects a decrease in the level of ESF funding available.

Income and Expenditure Account	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Scottish Funding Council Grants	9,333	9,511	(178)
Tuition Fees and Education Contracts	1,954	1,743	211
Other Income	994	1,066	(72)
Investment Income	39	154	(115)
Total Income	**12,320**	**12,474**	**(154)**
Expenditure (see analysis on next page)	**12,009**	**12,469**	**(460)**
Surplus	**311**	**5**	**306**

FINANCIAL HIGHLIGHTS
Income and Expenditure Account continued…

Expenditure

Total expenditure decreased by £460k (3.7%), in comparison to 2008/09, to £12.009m. The decrease in expenditure is, in the main, due to the decrease in staff costs with the most significant factors detailed below. The table below summarises the main categories of expenditure for 2009/10 and 2008/09:

- The decrease in Staff Costs of £344k is in the main due to the FRS 17 adjustment (2010: £346k Cr; 2009: £37k Dr)
- The largest reduction in Other Operating Expenditure of £209k is the movement in premises expenses (2010: £960k; 2009: £1,245k), a decrease of £285k. This movement is mainly as a result of a significant amount of available non-recurrent grant funding brought forward at July 2008 which was spent on premises expenses in 08/09 (see corresponding reason for decrease in SFC Grant income on previous page).
- The increase in interest payable of £47k relates to an FRS 17 adjustment with the interest on pension scheme liabilities exceeding the expected return on scheme assets. In the previous year the expected return on scheme assets was in excess of the interest on pension scheme liabilities by £21k as shown in note 5 to the financial statements

Expenditure Analysis	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Staff Costs	8,226	8,570	(344)
Other Operating Expenditure	2,743	2,952	(209)
Interest Payable	48	1	47
Depreciation	992	946	46
Total Expenditure	**12,009**	**12,469**	**(460)**

FINANCIAL HIGHLIGHTS
Balance Sheet

The balance sheets shows a decrease of £74k in net assets as at 31 July 2010 compared to the previous year end (see table on next page). Significant movements include:

- A decrease in tangible fixed assets of £526k. This is the result of depreciation charged in the year (£992k) offset by additions in the year of £466k. The additions include the new eco-house which has been capitalised at £209k with other additions relating to various smaller items around the College.
- An increase in debtors of £160k. This is a result of the following:
  - Trade debtors (2010: £229k; 2009: £470k) have decreased by £241k. The drop in trade debtors is mainly due to 2 particular trade debtor balances:
    a) Construction Skills (2010: £54k; 2009: £279k) - Construction Skills is a training agency which acts as a conduit between companies and SLC. The reduction in the year-end debtor reflects the significant reduction in the level of students coming to SLC via Construction Skills in 09/10 due to fewer jobs being available in the relevant industries (e.g. plastering, carpentry, joinery, bricklaying, roofing).
    b) Enterprise Resources (2010: £2k; 2009: £121k) - This relates to the Inclusiveness Project which taps into ESF funding and is administered by South Lanarkshire Council. The final claim for this project was for Jan-Mar 2010 and this invoice had been settled before the year-end.

    These decreases account for a reduction of 344k and are offset by various smaller increases.
  - European funding (2010: £521k; 2009: £253k) has increased by £268k. The increase in the debtor is mainly due to slow processing of ESF claims by the funding authority.
  - Prepayments and accrued income (2010: £246k; 2009: £113k) have increased by £133k. This increase is mainly due to the movement in accrued income (2010: 94k; 2009: nil). The accrued income is in relation to the PACE project where some of the funding is with-held until the project has been completed.

FINANCIAL HIGHLIGHTS
Balance Sheet continued…

Significant movements include:

- A decrease in cash and funds held on short term deposit of £268k. This is largely due to the slow release of the ESF funding as described on the previous page, as well as the repayment of the Lennartz creditor (see the movement in the creditors due after 1 year – the Lennartz creditor relates to the input VAT which was loaned back to the College at the time of the new building and which is now being repaid to HM Revenue and Customs in instalments).
- A decrease in the pension liability of £441k. The year-end figures are taken directly from the Hymans Robertson report. The movement is largely due to past service gains as a result of using CPI and not RPI in the FRS 17 calculations. It should be noted that of the movement of £441k, £143k relates to actuarial gains which have been taken directly to reserves via the Statement of Total Recognised Gains and Losses. The remaining £298k is taken to the Income and Expenditure account as mentioned on previous pages of this report.

Balance Sheet Category	31 July 2010 £'000	31 July 2009 £'000	Variance £'000
Fixed Assets	30,465	30,991	(526)
Debtors & Stock	1,004	844	160
Cash	1,870	2,138	(268)
Creditors: Amounts falling due within 1 year	2,387	2,428	41
Creditors: Amounts falling due after 1 year	1,863	1,975	112
Early Retirement Provision	622	588	(34)
Pension Liability	882	1,323	441
Net Assets	**27,585**	**27,659**	**(74)**

FINANCIAL HIGHLIGHTS

Financial Forecasts

Financial Forecasting

- The initial 2009/10 financial plan forecasted a surplus of £51k excluding FRS 17 adjustments. The table below (bottom left) shows the reconciliation between the forecast outturn and the actual amount generated during the course of the year. The main reasons for the movement from the forecast to the actual outturn were as follows:
    - Increase in SFC grant income of £481k. This was mainly due to the fact that the forecast did not account for the economic downturn funding of £269k as this was not announced until the financial plan was drawn up. In addition, there was the release of the prior year £100k fee-waiver provision (there was in fact only a claw-back of £44k.) Finally, the quantum of PACE income was underestimated by £78k.
    - Decrease in tuition fees of £371k. The difference here is mainly in the Further Education category which was forecast to generate £1,389k of fees but which only actually produced income of £916k due to the move to attract more HE students. This was partially offset by Education contracts income of £222k against a forecast of £120k.
    - Increase in both other income and staff costs mainly relate to the grossing up of payroll costs in the financial statements in respect of staff who are seconded out to other entities and where the costs are recharged. These figures were netted off in the forecast.

- The table below (bottom right) summarises the forecast income, expenditure and cash balances for the College for 2010/11.
- Income is expected to decrease in 2010/11. The reduction in forecast income is due to an anticipated sector-wide cut in SFC grant funding, offset slightly by an increase in European Funding which is forecast to continue to provide a strong income stream. College expenditure will have to be monitored closely, in particular staff costs, in order to remain in surplus.

Forecast vs. Actual	31 July 2010 (£'000)
Forecast outturn per budget	**51**
Increase in SFC grant income	481
Decrease in tuition fees	(371)
Increase in other income	319
Increase in staff costs (excl. FRS 17)	(442)
Increase in other costs	(25)
FRS 17 adjustments	298
Actual outturn at year end	**311**

Forecast Income, Expenditure and Cash Balances for 2010/11	£'000
Income	11,796
Expenditure	11,781
Forecast surplus for the year ending 31 July 2011	**15**
Cash balance at 31 July 2010	1,870
Forecast movement in cash during 2010/11	(70)
Resulting cash balance at 31 July 2011	**1,800**

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters

SUMS achievement

The SFC require the College to achieve total SUMs within 2% of its target each year to avoid being in a claw-back position.

BDO Conclusion

The College certificate to SFC shows a WSUMs total for the year to 31 July 2010 of 45,903. This figure is in excess of its target for the year of 42,153 and accordingly there should be no clawback of SFC grant for non achievement of SUMs target.

Financial outturn

Audit Scotland and SFC expect close scrutiny of the College's financial forecasting and achievement of the forecast financial outturn for 2009/10. These bodies also expect the Board of Management to be provided with good quality information throughout the year.

As discussed on the previous page, SLC forecast a small surplus of £51k at the outset of 2009/10, prior to any FRS 17 adjustment. We reviewed the quarterly management accounts which were presented to the Board of Management at appropriate points throughout the year. Although these accounts showed a deficit after 3 and 6 months, a small surplus for the year was consistently forecast. This forecast of a small surplus is consistent with the final draft accounts, if the FRS 17 year-end adjustment is removed.

BDO Conclusion

The Board of Management has been presented with good quality financial information throughout the year.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters Continued …

Additional Fee Waiver - Non-Recognition of Debtor

- With respect to fee waiver the College is not in a clawback position with regards to 2009/10, and due to the high level of demand amongst students the College is in a position to receive an additional fee waiver grant. However, due to the economic downturn and the resultant increase in the number of students with fee waiver needs across the college sector, SFC may not be able to meet the demand from all colleges for additional fee waiver grant due to funding constraints. The potential additional fee waiver income has not been recognised in the financial statements.

BDO Conclusion

We agree with management's prudent treatment of non-recognition of the additional fee waiver grant due to the doubt over whether the grant is recoverable as SFC have indicated that they cannot guarantee payment.

Accounting for ECO House Donations

The College constructed an ECO-friendly house in the College grounds with the assistance of in-kind contributions from over 30 trade sponsors. The in-kind contributions were valued based upon expected market value at the time of the gift and the house has been valued at £209k with approximately £149k of this being met by the sponsors. The in-kind contributions have been credited to deferred capital grants in note 17 to the financial statements. The house will be depreciated over a ten year period and the deferred capital grant released to income and expenditure account over the same timeframe.

BDO Conclusion

The College has correctly accounted for the ECO-friendly house in accordance with paragraphs 153 to 155 of SORP 2007.

KEY ACCOUNTING AND AUDIT MATTERS
From the Audit Planning Memo & Other Matters Continued …

FRS 17 - CPI

- On 22 June 2010 the Chancellor announced a change in the methodology for calculating future pension increases which are now being linked to the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI) which was previously used. The effect of this change on the South Lanarkshire College share of the Strathclyde Pension Fund (SPF) comes through as a negative past service cost of £370k. The key question is whether this credit should be taken through income and expenditure account or taken to the statement of total recognised gains and losses. The Accounting Standards Board issued Urgent Issues Task Force information sheet number 90 entitled 'Accounting implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits' on 13 October 2010. The issue is whether the change gives rise to a different benefit (a change in benefit) or whether a different assumption is being applied to an unchanged benefit (a change in assumption). FRS 17 'Retirement Benefits' requires that a change in scheme liabilities arising from a change in benefit be recognised in the income and expenditure account. In contrast, it requires that a change in the scheme liabilities arising from a change in an assumption is part of actuarial gains and losses which should be recognised in the statement of total recognised gains and losses.
- The College has taken the view that the credit of £370k should be taken to income and expenditure account in accordance with actuarial advice from Hymans Robertson LLP.

BDO Conclusion

In this case the draft guidance is capable of interpretation either way and the accounting treatment hinges in part on whether there is a constructive obligation to pay pension increases linked to RPI in the SPF. We are satisfied that the College's accounting treatment of the £370k can be supported by reference to the draft UITF guidance and the advice given by Hymans Robertson LLP.

The consultation period for comments on the UITF draft abstract expired on 10 November 2010 and a final UITF document will be issued in due course and will hopefully provide clarity on the issue. If the final document requires that such credits be taken to the statement of total recognised gains and losses rather than the income and expenditure account, then the College accounting treatment will need to be adjusted next year by restating the comparative figures on the income and expenditure account. The balance sheet figures are unaffected.

CORPORATE GOVERNANCE

Corporate Governance
We reviewed the College's corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. The corporate governance arrangements of an organisation are the means by which strategy is set and monitored, managers are held to account, risks are managed, stewardship responsibilities are discharged and institutional sustainability is ensured. The Code of Audit Practice requires that auditors review and report on the College's corporate governance arrangements as they relate to: • the College's reviews of its systems of internal control, including reporting arrangements; • the prevention and detection of fraud and irregularity; • standards of conduct and arrangements for the prevention and detection of corruption; and • its financial position.
The Board of Management is required to report on their compliance with the "***Combined Code on Corporate Governance (June 2008)***". Looking forward we would draw your attention to the revised Corporate Governance Code published in June 2010 called ***"The UK Corporate Governance Code"*** and also to the Consultation Draft issued by CIPFA in May 2010 called **"Delivering Good Governance in Scotland's Colleges: A Framework"**.
Board of Management: has five formally constituted committees which have specific terms of reference and act with delegated authority from the Board (these are the Audit Committee, Finance Committee, HR Committee, Development Committee and Property & Estates Committee). The terms of reference for each committee were revised and updated during the year. • ***Composition:*** The Board is comprised of 15 members as at 31 July 2010. As such, the Board has one less than the recommended maximum of 16 members. However, this is due to the resignation of one Board member near to the year end; the Board will seek to recruit an additional member in the current year. The membership of the Board has undergone significant change during the year due to retirals of members who have served for 12 years. However, the Board continues to reflect a wide range of stakeholders, including a local head-teacher, representatives from business & public sector bodies, a solicitor, a CA, the College Principal and Chief Executive, a student representative & staff representatives. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor students of the College). The role of Clerk to the Board of Management is performed by Angela Martin who is the p.a. to the Chief Executive and an employee of the College. The recommended maximum period of office for board members of 12 years has been adhered to.

CORPORATE GOVERNANCE
Continued…

Corporate Governance continued…

Board of Management continued…

- ***Timing:*** The Board exceeded the recommendation for meeting not less than 4 times during the year, with 6 meetings throughout 2009/10. Therefore, the Board met at sufficiently regular intervals during the course of the year in order to discharge its duties effectively.
- ***Development and Evaluation:*** Management are aware of the importance of ensuring that new Board members have a timely induction and appropriate development programme. This year, there were several new Board members; all were provided with an induction by the Clerk to the Board. The College also held their annual Board Training Information Day, which included training on Corporate Governance. The Board undertakes a formal and rigorous evaluation of its own effectiveness and that of its committees at regular intervals.

Audit Committee: It was comprised of 3 members as at 31 July 2010. The committee, consisting entirely of non-executives, meets the recommendation that there be at least 2 independent non-executive members. In addition, the audit committee includes a qualified chartered accountant and so meets the recommendation that at least 1 member of the audit committee has recent and relevant financial expertise. Furthermore, it is noted that the Chair of the Board of Management is not a member of the Audit Committee and that no member of the Audit Committee is also a member of the Finance Committee.

Remuneration Committee: The College has a “Chairs Committee” which consists of the Chair of the Board, the Vice Chair of the Board and the Chairs of all sub-committees. This committee meets once a year in order to determine the pay and conditions of senior management.

From our review of Corporate Governance arrangements within the College we do not believe the Corporate Governance statement to be misleading or inconsistent with other information made available to us during the audit process.

System of Internal Control

A review and assessment of the College’s corporate governance arrangements was carried out. This assessment included a review of the College’s committee minutes and completion of a number of standard checklists. The checklists cover issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct, issues of legality and the College’s financial position.

The College, in accordance with the Accounts Direction, has included in its financial statements, a statement covering the responsibilities of the Board of Management in relation to corporate governance.

Our review of the statement concluded that it complies with guidance and is not inconsistent with other information we are aware of from our audit.

CORPORATE GOVERNANCE
Continued…

Review of Internal Audit

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 systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality. Internal audit services are provided by Wylie & Bisset LLP. An assessment was made of the adequacy of the internal audit output and it was concluded that we as external auditors were able to use the work of internal audit in planning our own procedures. Accordingly cognisance was made of the work of internal audit in the following areas during 2009/10:

- Purchasing and payments
- Treasury management
- IT Systems
- Corporate governance
- Risk management
- Value For Money – Sustainability

In August 2010, Wylie & Bisset LLP issued the internal audit report for the year ended 31 July 2010. This concluded that the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives.

Risk Management

The Board has ultimate responsibility for the identification and management of risks facing the College. However, much of the work is done by the Risk Management Group (RMG), lead by the Finance Manager, which meets frequently during the year. The RMG is responsible for maintaining an up-to-date risk register, which identifies and assesses risks to the College according to the likelihood and the impact of each risk. It is also the responsibility of the RMG to identify appropriate actions to mitigate the key risks, and these are documented on the risk register. The RMG reports to the Audit Committee twice each year, and a schedule of changes to the risk register is presented to the entire Board on an annual basis, to review the College's response to identified risks.

During the year, there have been some significant adjustments to the weighting of certain risks, in order to reflect the current economic climate.

CORPORATE GOVERNANCE
Continued...

Prevention and Detection of Fraud and Corruption

The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment concluded that the arrangements are adequate and appropriate. The College has in place an over-arching fraud prevention policy, in addition to a whistle-blowing policy. All key policies are readily available to staff on the College's intranet. The fraud policy includes details of how to respond to any frauds identified, although it is noted that no frauds were identified by the College in 2009/10. In addition to the aforementioned policies, the College has also implemented tendering and procurement procedures to mitigate the risk of financial irregularity.

Operating and Financial Review (OFR)

Additional guidance on the content of the operating and financial review (OFR), the inclusion of which is recommended within the 2007 SORP, was issued by the Scottish Funding Council on 2 October 2009. This guidance states that it would be helpful if a core set of performance indicators could be incorporated within the OFR to meet best practice and facilitate comparisons between the performances of different colleges. Two colleges have been identified as providing examples of good practice. South Lanarkshire College has included this level of detail in its OFR. The College has considered how it can best implement the recommendations within this guidance going forward in order to present data that best reflects the key performance indicators being measured against targets set.

MANAGEMENT LETTER POINTS

Key Areas	Issue and impact	Recommendations	Management Reponses
Fixed asset register	The college fixed asset register was not up to date at the date of the audit as the fixed asset additions for the year had not been added to the register. If the fixed asset register is not up to date problems can arise accounting for fixed assets.	We recommend that the fixed asset register be brought up to date and reconciled to the nominal ledger as soon as possible.	This will be completed by 8 December 2010.
Register of Interests	At the date of the audit fieldwork the register of interests was unavailable and the online version of the register of interests was not up to date. If the register of interests is not up to date problems may be experienced identifying conflicts of interest and identifying related party transactions.	We recommend that both the manual and online registers of interests are updated as soon as possible.	The register of interests has now been updated and the website will be updated by 8 December 2010.

PREPARATION OF THE FINANCIAL STATEMENTS

South Lanarkshire College East Kilbride

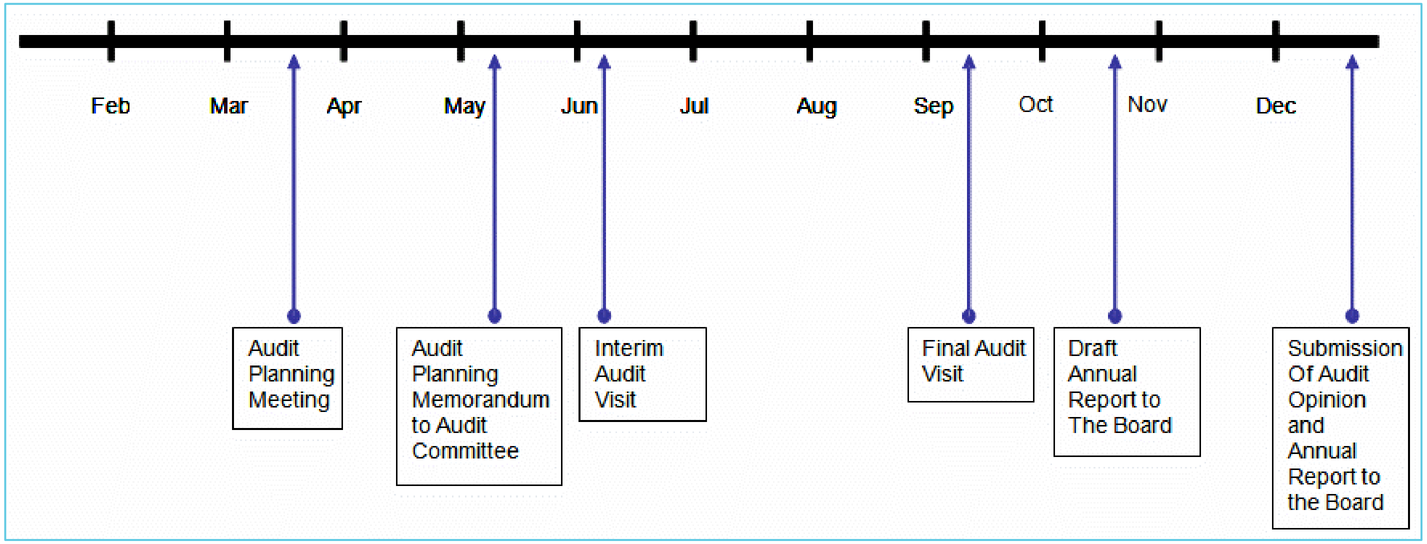
Preparation of the Financial Statements

Our Audit Planning Memorandum outlined the various stages of the audit process, as set out in the timetable below. In relation to the key factors of the production of the financial statements, our assessment was as follows:

Completeness of Draft Financial Statements: We received a preliminary set of financial statements on 11 October (the 4th day of audit fieldwork) which contained the pages from the Income and Expenditure account onwards. On 14 October 2010, the seventh day of our audit fieldwork, we received financial statements which were largely complete. There were a couple of late adjustments from the initial figures issued 3 days earlier.

Quality of Supporting Documentation: Prior to the beginning of our audit fieldwork, we issued an "Information to be Prepared by Client" request setting out the required supporting documentation to be in place for the beginning of audit field work. The supporting documentation that was received was of a good standard.

Response to Audit Queries: Management provided high quality and timeous responses to all of the audit queries that were posed to them.



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APPENDIX 1
Unadjusted Audit Differences

Unadjusted Audit Differences

We are required by International Standards on Auditing 260 “Communication of matters to those charged with governance” to communicate all uncorrected audit differences, other than those we clearly believe to be trivial.

Total unadjusted audit differences identified by our audit work would decrease the reported surplus of £311k by £5k. The Board of Management will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole. These are set in the table below:

Unadjusted Audit Differences		Income & Expenditure Account		Balance Sheet	
	£’000	DR £’000	CR £’000	DR £’000	CR £’000
Surplus for the year	311				
Dr Income; Cr Expenses		1,081	1,081		
Being in order to show income and expenses in full					
Dr Other taxes & social security; Cr Other creditors				103	103
Being the reallocation of non HMRC payroll creditors to other creditors					
Dr Other grant income; Cr European funding debtor		26			26
Being adjustment to correct ESF debtor/ income					
Dr Cash; Cr Prepayments				26	26
Being the removal of a cancelled cheque					
Total adjustments on this page	**26**	**1,107**	**1,081**	**129**	**155**
Surplus for the year after adjustments on this page	**285**				

APPENDIX 1
Unadjusted Audit Differences continued...

Unadjusted Audit Differences		Income & Expenditure Account		Balance Sheet	
	£'000	DR £'000	CR £'000	DR £'000	CR £'000
Surplus for the year after adjustments on previous page	285	1,107	1,081	129	155
Dr Prepayments; Cr Other operating expenses			16	16	
Being prepayment for control cards (incorrectly expensed)					
Dr Prepayments; Cr Accruals				9	9
Being correction of opening balance difference					
Dr Staff costs; Cr Other taxes and social security costs		4			4
Increase creditor to reflect post year end payments					
Dr Trade debtors; Cr Other creditors				2	2
Being the reallocation of credit balances on debtors ledger					
Dr Accruals; Cr Other income			9	9	
Being to correct the Balfour Beattie retention accrual (error due to VAT rate changes)					
Total Adjustments	**(5)**	**1,111**	**1,106**	**165**	**170**
Surplus for the Year after Audit Adjustments	**306**				

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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