HENDERSON LOGGIE
Chartered Accountants

Stevenson College Edinburgh

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

External Audit Report No: 2010/02

Draft Issued:	**18 November 2010**
2nd Draft Issued:	**19 November 2010**
Final Issued:	**13 December 2010**

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HENDERSON LOGGIE

Notice: About this report

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

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

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Corporate Governance

- The College has shown a surplus for the year of £1.596 million (2008/09 - £0.356 million), against an original budgeted surplus of £0.300 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 was a surplus of £9.818 million (31/07/09 - £9.055 million). The surplus for the year includes an exceptional Financial Reporting Standard (FRS) 17 pensions past service gain of £1.281 million.

- Wylie and Bisset LLP 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 Stevenson College Edinburgh 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.'

- The report published by Her Majesty's Inspectorate of Education (HMIE) in February 2010 following its review of the College in November 2009 concluded positively on the processes in place at the College although noted that attainment rates were low in more than a few further education programmes.

- The Edinburgh Colleges collaboration project decided in the year against a merger of the three colleges involved in the project (Edinburgh's Telford College, Stevenson College Edinburgh and Jewel and Esk College) but agreed to progress work in certain areas including curriculum vision and corporate services.

- The College's Corporate Governance Statement confirms that the College has complied with the requirements of the 2008 Combined Code on Corporate Governance, in so far as they apply to the further education sector, for the year to 31 July 2010.

- We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear, from our review of them, to be adequate, well designed and operating effectively.

Performance

- The College's latest Strategic Plan, covering the period 2009-14, was approved by the Board of Management in September 2009. There are four strategic aims, which are supported by strategic objectives, strategies and key performance indicators (KPIs).

- Risk management arrangements include the on-going assessment of the College's Risk Register to reflect current strategic and operational risks.

- Regular performance reports including benchmarking information were submitted to the Board of Management and its committees during the year.

- The Finance, Property and General Purposes Committee discussed a draft of the Institutional Sustainability Framework at its meeting on 1 March 2010 and this was subsequently approved by the Board and submitted to the SFC.

- Financial management arrangements ensure appropriate and timely financial reporting at strategic and operational levels.

Performance (Cont'd)

- 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 and international 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 scenario planning exercise and set up working groups to determine how savings can be made.

Financial Statements

- On 17 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial settlements 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.

- 14 audit and accounting adjustments, together with a number of minor disclosure adjustments, were made to the financial statements. These mainly affected the balance sheet and increased the surplus for the year by £0.009 million.

- The College has exceeded its WSUMS target for 2009/10 by 689 WSUMs (0.8%); (2008/09 - 1,433 WSUMs, exceeded by 1.6%).

Background

1. 2009/10 was the fourth year of our five year appointment as external auditors of Stevenson College Edinburgh ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the 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 21 April 2010 and considered and approved by the Audit Committee on 2 June 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 consideration of any impairment, revaluation of land and buildings and the potential impact on the financial statements; the Estates Master Plan implementation; on-going estate improvements and maintenance; application of the capitalisation threshold; and compliance with relevant financial reporting standards;

   - recoverability of debtors;

   - achievement of SUMs and commercial income targets;

   - 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;

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

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

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, controls 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 Financial Forecast Returns (FFRs) submitted by the College to the Funding Council.

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	356	300	1,596	618
Surplus (excl. FRS17 adjustments)	384	300	485	618
Income and expenditure reserves (excl. pension reserve)	9,055	9,621	9,818	10,465
Income and expenditure reserves (incl. pension reserve)	4,777	8,691	6,668	6,187
Cash balances	6,352	7,050	8,077	7,045

Source: Audited accounts and 2009 and 2010 FFRs

9. Overall, College income in 2009/10 has increased by £1.126 million (4.5%) over 2008/09 to £26.048 million. The main reasons for this include:

- an increase of £0.458 million (2.4%) in SFC grant income to £19.535 million, largely made up of an increase in recurrent grant of £0.356 million (2.1%) including £0.275 million economic downturn funding;
- an increase of £0.295 (30.0%) in tuition fees for higher education students to £1,279 million, reflecting the higher number of students in this category studying at the College during 2009/10;
- an increase of £0.528 million (68.7%) in tuition fees for non-EU further education students to £1.296 million, due to a greater number of overseas student groups, most significantly from Saudi Arabia, studying at the College; and
- a decrease of £0.161 million (58.3%) in investment income to £0.115 million due largely to a one-off, £0.079 million, receipt in 2008/09 for backdated interest from HM Revenue and Customs (HMRC) in relation to the Lennartz VAT settlement for the Music Box and lower rates of return on cash balances.

10. Expenditure in 2009/10 decreased by £0.114 million (0.5%) over 2008/09 to £24.452 million. This was largely due to an 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 £1.281 million.

Financial Position (Cont'd)

11. The above gain was offset by a number of movements including:

- an increase in staff costs of £0.786 million (4.5%) to £18.282 million. Staff numbers show a slight increase on last year to 485 full-time equivalents against 479 in 2008/09 and there was a pay award of 1.5% from 1 August 2009. In addition redundancy costs of £0.324 million were incurred during the year (2008/09 - £0.036 million);
- a £0.374 million loss on revaluation of assets (2008/09 - £nil) relating to assets where the valuation provided at 31 July 2010 was less than their depreciated historical cost; and
- a £0.139 million (434.4%) increase in interest payable to £0.171 million, of which £0.138 million relates to interest on the FRS 17 pension liabilities.

12. The SFC requires external auditors to check that any severance payments to senior staff, classified as those earning more than £50,000 per annum, meet the requirements set out in SFC Circular letter FE/03/2000. During 2009/10 a severance payment was made to one senior member of staff and audit testing confirmed that this payment conformed with the guidance.

13. The College's cash balance at 31 July 2010 was £8.077 million, an increase of £1.725 million (27.2%) on the previous year. The main reason for this increase is an increase in deferred income and accruals of £1.120 million (including economic downturn capital funds of £0.818 million) and cash generated from the operating surplus. The Finance, Property and General Purposes Committee considered proposals for the best use of cash reserves during the year and further consideration will be given to this once the future funding position is clearer.

2009/10 WSUMS outturn

14. The College's outturn against its 2009/10 WSUMs target is shown in table 2. The 2009/10 target includes the delivery of 1,429 additional WSUMs funded by the SFC via economic downturn monies.

Table 2: 2009/10 WSUMs outturn

	2006/07	2007/08	2008/09	2009/10
WSUMs target	88,670	89,734	89,734	91,163
WSUMs actual	89,650	90,854	91,167	91,852
Excess	980	1,120	1,433	689

Source: Audited WSUMs returns.

15. The College's internal auditors carried out the audit of the WSUMs 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.

FRS 17 Retirement Benefits

16. 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.

Financial Position (Cont'd)

FRS 17 Retirement Benefits (Cont'd)

17. Note 26 to the financial statements highlights the College's net pension liability position of £3.150 million within the LPF. This has moved significantly in the year from a net pension liability of £4.278 million at 31 July 2009. This change in financial position results mainly from the Government's announcement in July 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 issued an Information Sheet on 13 October 2010 providing draft guidance on the accounting implications of the Government's decision. Based on this draft 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. This is in line with the treatment by the scheme's actuaries.

18. 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 £0.138 million (2008/09 - £0.015 million interest income).

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

19. 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.

Capital Income and Expenditure

20. Consultants were appointed in 2009 to review the College's Estates Master Plan and their report gave development options which are set out in seven discrete phases. The first stage was the preparation of a business case to support the development of the current quadrangle area into an Atrium. The estimated construction cost of this project was £6.2 million.

21. Due to the current high level of financial risk associated with the project and the uncertainty of the impact of the economic recession on College funding formal Board approval was given in January 2010 to postpone the decision on the Atrium Phase 1 development until February 2011.

22. In September 2009 the SFC announced a targeted allocation of additional capital funding for financial year 2009/10 to help Scotland's colleges respond better to the needs of individuals and businesses during the economic downturn. The College's share (£0.818 million) has been earmarked for two capital projects. £0.267 million has been allocated as a contribution towards the refurbishment of the previous Westburn Primary School, in partnership with City of Edinburgh Council, to provide office, training and meeting space. This will provide accommodation for the West Edinburgh Action team and Princes Trust project staff.

Financial Position (Cont'd)

Capital Income and Expenditure (Cont'd)

23. The balance of the economic downturn funds has been allocated to support the development of a Sports Centre on the campus. This will provide a permanent solution for sports and provide a gym, social and teaching space. Total project costs will be in the region of £1.5 million and, in addition to the economic downturn monies, funding will be secured from unallocated SFC capital grants and cash reserves. Construction work commenced in August 2010 and work is expected to be completed by December 2010. A project sub-group has been set up, with membership from both the Finance, Property and General Purposes Committee and the Executive Management Team. The sub-group has devolved decision making powers to take the project forward within the agreed budget.

24. Capital expenditure of £0.863 million was added to fixed assets during the year, mainly in relation to refurbishment works (£0.142 million); professional fees for the College's new sports facility (£0.122 million); and the purchase of computer equipment and server virtualisation costs (£0.354 million). The fixed asset additions were funded by deferred capital grants.

25. At 31 July 2010 a full valuation of the College's land and buildings was performed in line with FRS 15 Tangible Fixed Assets. This gave rise to an overall valuation loss of £0.566 million, which has been debited to the revaluation reserve. As noted at paragraph 11 above, £0.374 million has been charged to the Income and Expenditure Account in relation to assets where the valuation was less than the assets depreciated historical cost.

Provisions

26. The College has a provision in its Balance Sheet at 31 July 2010 of £1.333 million (31/07/09 - £1.333 million) relating to pension costs from early retirements awarded to former teaching staff. The College's approach to the valuation of the provision has been to apply SFC actuarial tables on a consistent basis. The net interest applied was 2.0% in line with SFC guidance.

Systems of Internal Control

Control environment

27. No material weaknesses in the accounting and internal control systems were identified during the 2009/10 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements although a few minor matters were discussed with the Finance Team during the year.

Internal Audit

28. 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 and 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.

29. Wylie and Bisset LLP 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 Stevenson College Edinburgh 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.'

Systems of Internal Control (Cont'd)

Her Majesty's Inspectorate of Education (HMIE) Review

30. 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.

31. The report published by HMIE in February 2010 following its review of the College in November 2009 concluded that: 'HMIE is confident that:

- learners are progressing well and achieving relevant, high quality outcomes. However, attainment rates are low in more than a few further education programmes;
- the college has in place high quality learning and teaching processes;
- learners are actively engaged in enhancing their own learning and the work and life of the college; and
- the college is led well and is enhancing the quality of its services for learners and other stakeholders.'

Progress was made during 2009/10 in implementing the action identified following the HMIe review.

Corporate Governance Arrangements

32. The College has established corporate governance arrangements, with committees operating within a culture of risk management. The College corporate governance arrangements are described in its Statement of Corporate Governance and Internal Control contained within the financial statements.

33. Self-evaluation questionnaires were completed by Board of Management and committee members during the year. The returns were considered by the Membership Committee in December 2009 and an action plan drawn up to address areas identified for further development and improvement. These included: the need be more forward looking in agenda setting; ensuring that the cycle of meetings permitted more integration of the work of committees; and more discussion of strategic issues.

34. The Edinburgh Colleges collaboration project decided in the year against a merger of the three colleges involved in the project (Edinburgh's Telford College, Stevenson College Edinburgh and Jewel and Esk College) but agreed to progress work in the areas of governance arrangements (identifying the structures to underpin collaboration activity), curriculum vision for 2015 and reviewing corporate services.

35. 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 report's recommendations.

36. 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

37. 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.

38. 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.

39. The College's Statement of Corporate Governance and Internal Control confirms that the College has complied with the requirements of the 2008 Combined Code on Corporate Governance, in so far as they apply to the Further Education sector, for the year to 31 July 2010.

40. Our audit opinion on the statement is covered by our auditors' report and is unqualified in this respect.

41. 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.

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

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

43. The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations, Purchasing Policy and Procedures manual, Whistleblowing Policy, Fraud Policy and Response Plan and Risk Policies. These documents are reviewed and updated periodically.

Introduction

44. 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.

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

Strategic Plan

46. The College's latest Strategic Plan, covering the period 2009-14, was approved by the Board of Management at its meeting in September 2009. There are four strategic aims which are supported by strategic objectives, strategies and key performance indicators (KPIs).

Risk Management

47. The College has an approved Risk Management Policy and Risk Register. The Risk Register is categorised by function and is updated to reflect on-going assessment of the strategic and operational risks faced by the College. Risks, controls and control responsibility are assigned to appropriate officers. An annual Risk Management Report, outlining the main features of the College's risk management activities is prepared for the Board of Management. During the year the Audit Committee recommended that there should be a more formalised process of review of the College's Risk Register and it is the intention that this will be introduced during 2010/11.

48. There are separate risk registers produced for each of the capital projects and these are regularly updated. The risk registers, along with the finance risks are presented regularly to the Finance, Property and General Purposes Committee for its review.

Performance Management

49. The Board of Management and its committees regularly consider the College's performance in implementing its strategic objectives. The Principal presents a report to each Board meeting outlining activities and achievement.

50. The College uses KPIs and benchmarking to monitor performance. Operational plans are also linked into corporate objectives set out in the Strategic Plan.

51. Annually, accounting ratios and benchmarking data are brought to the attention of the Finance, Property and General Purposes Committee where the College's performance is benchmarked against the sector.

52. In October 2009 the SFC issued guidance on developing a sustainability framework under cover of SFC/31/2009. The sustainability framework is a statement 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 (OFR). 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.

53. The Finance, Property and General Purposes Committee discussed a draft of the Institutional Sustainability Framework at its meeting on 1 March 2010 and this was subsequently approved by the Board and submitted to the SFC. The College Principal has shared information on the College's model for financial sustainability with staff, which included a presentation on Institutional Sustainability.

Financial Management

54. Monthly management accounts are prepared and reviewed by the Finance Team and the Head of Finance. Financial Monitoring Statements are presented at each meeting of the College's Finance, Property and General Purposes Committee for consideration and summary information is also presented to the full Board. Our review confirms that appropriate and timely financial reporting is made at operational and strategic levels.

55. The College's budget for 2010/11 was approved by the Board of Management at its meeting in June 2010. It was noted that a number of cost-saving initiatives were being worked on, which had not been included in the budgeted numbers, including: investigation of support staff structures, together with system and process reviews in order to identify and drive out efficiencies; review of teaching methodologies in a manner which will reduce class contact time, freeing up teaching resource; focus on support services efficiencies and sharing of services; and a number of minor cost-saving possibilities.

56. 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 and international 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. The College has undertaken a scenario planning exercise and set up working groups to determine how savings can be made.

57. Financial risks included in the corporate Risk Register are reviewed periodically and reported to the Board of Management and its committees.

Efficient Government Initiative (EGI)

58. The College submitted updated EGI information schedules to the SFC in January 2010. This showed total annual cash efficiencies of £0.144 million for 2008/09 and forecasts of £0.311 million and £0.617 million for 2009/10 and 2010/11 respectively. The return also showed annual time-releasing efficiencies of £0.012 million, £0.076 million and £0.104 million over the same period. The largest efficiencies relate to: academic faculty restructuring (increase in class contact hours); review of all support functions to support new academic structures; introduction of a support and academic staff voluntary severance scheme; and review in the reappointment of establishment staff posts. 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)

59. The College has a VFM Strategy which sets out the scope, responsibilities, concept and means of measuring the achievement of VFM.

60. The College considers best value in the context of its wider planning and operational procedures and business processes.

61. Aspects of VFM are considered by internal audit in all of their reviews. In addition, internal audit carried out a specific VFM review in the area of Business Development during 2009/10. The internal auditors considered that the systems and procedures used by the College were 'strong' in this area although two 'low' priority recommendations were made in their report and these were agreed by College management.

62. During the year the College implemented the ordering module of PECOS. This software is used by the Scottish Government and has been rolled out to public sector bodies throughout Scotland in order to obtain greater VFM in purchasing.

Audit Opinion

63. On 17 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

64. 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.

Table 4: Key elements of the audit process

Completeness of draft financial statements
A set of draft financial statements was received on 27 September 2010 before the start of the final audit visit on 4 October 2010, although an updated OFR was not available until 12 November 2010. The financial statements were of a high standard and required minimal presentational changes as part of the audit process.

Quality of supporting working papers
In accordance with our normal practice, we issued a ‘prepared by client’ request that set out a number of documents required for our audit of the financial statements. A full set of supporting working papers were provided during the audit and were of a suitably high standard.

Response to audit queries
We are pleased to note that all audit queries were dealt with in a timely manner.

Audit and Accounting Adjustments and Confirmation

65. In table 5 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process. Two further trivial adjustments were not processed. Explanations for material adjustments are given at paragraph 66 and 67 below.

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
Land & Buildings - Cost			122	
Land & Buildings - Accum Depn				3
Revaluation Reserve				119
Other Equipment - Cost				685
Land & Buildings - Cost			685	
Other Equipment - Accum Depn			372	
Land & Buildings - Accum Depn				372
Land & Buildings - Cost				685
Land & Buildings - Accum Depn			372	
Revaluation Reserve			313	
Revaluation Reserve				5
General Reserve			5	
General Reserve				18
Loss on revaluation of fixed assets	18			
Lennartz Creditor< 1 yr				9
Lennartz Creditor > 1yr			9	
EMA income			18	
Accrued income				18
Deferred income			30	
Prepaid income				30
Deferred income			7	
Other grant income		7		
Accruals			5	
External audit fees		5		
Other operating expenditure	3			
Prepayments				3
Other income		64		
Accrued income			64	
Student Support funds				46
SFC grant income	46			
Trade debtors			2	
Trade creditors				2
	67	76	2,004	1,995

Audit and Accounting Adjustments and Confirmation (Cont'd)

Description of Material Audit Adjustments

66. During the audit it was noted that capital expenditure of £0.122 million relating to the new sports facility had been taken into account when arriving at the revaluation adjustment at 31 July 2010, even although this had not been included within the scope of the valuation. This expenditure was reinstated in fixed assets with a corresponding adjustment in the revaluation reserve.

67. It was also noted that Other Equipment included items capitalised in recent years under the College's refurbishment programme. Some of these items, such as heating system replacements, had been taken into consideration by the valuer when arriving at the valuation of land and buildings at 31 July 2010. These items, with a net book value of £0.313 million, were reclassified as Land and Buildings and then the revaluation adjustment was reworked to take these into account.

Confirmations and Representations

68. We confirm that as at 13 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.

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