

KILMARNOCK COLLEGE

**ANNUAL REPORT
TO THE BOARD OF MANAGEMENT AND THE AUDITOR GENERAL FOR
SCOTLAND ON THE EXTERNAL AUDIT FOR THE YEAR ENDED 31 JULY
2011**

NOVEMBER 2011

Wylie & Bisset LLP
CHARTERED ACCOUNTANTS
168 Bath Street
Glasgow

Date of commencement of Final Visit	17 October 2011
Date of Draft Report to College	28 October 2011
Date of Discussion re Draft Report	9 November 2011
Date of College Responses	10 November 2011
Date of Presentation of Report	22 November 2011

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GLOSSARY OF TERMS

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

1. INTRODUCTION

- 1.1 Wylie & Bisset were appointed as the External Auditors of Kilmarnock College with effect from 1 August 2006 for a period of 5 years until 31 July 2011.
- 1.2 The Annual Report has been prepared following our audit of the financial statements of Kilmarnock College for the year ended 31 July 2011.
- 1.3 Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities contained in the Code of Audit Practice ('the Code') issued by Audit Scotland in March 2007.
- 1.4 Paragraph 24 of the 'Code' states that the auditor's objectives are to:
- Provide an opinion whether the College's financial statements present a true and fair view of the financial position of the College and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board;
 - Review and report on the College's corporate governance arrangements as they relate to:
 - The College's review of its systems of internal control
 - The prevention and detection of fraud and irregularity
 - Standards of conduct, and the prevention and detection of corruption
 - Its financial position, and
 - Review aspects of the College's arrangements to manage its performance.
- 1.5 The responsibilities of the Board of Management with regard to the financial statements are set out in the "Statement of Responsibilities of the Board of Management" included in Appendix A and in the "Independent Auditors' Report" in Appendix B.
- 1.6 The responsibilities of Wylie & Bisset with regard to the financial statements and our audit opinion on the financial statements are included in the "Independent Auditors' Report" included in Appendix B.
- 1.7 The investigation by Strathclyde Police for the period to 2006/07 into the relationship between the College and associated bodies has now concluded.

The investigation was undertaken after concerns were raised by incumbent Members of the Board of Management. An internal audit report was commissioned and was passed to Strathclyde Police which raised concerns with regards to misappropriation of public funds and the nature of the

relationship between the College and associated bodies in terms of governance, probity and cost to the College. Wylie & Bisset LLP did not have prior sight of this report.

The investigation identified a number of issues in relation to governance, probity and cost to the College. The investigation was only formally concluded in June 2011 when an official response to the investigation was received by the College from Strathclyde Police. The Police indicated in their response that the issues under investigation had all been addressed by the College and Strathclyde Police have taken no further actions in this respect.

On commencement of the investigation the College immediately took steps to review and tighten controls and address the need for change going forward. The actions taken by the College included a full Corporate Governance review, including a review of controls, appointment of new Board Members, a new Principal and Senior Management Team.

From the various work undertaken by both external audit and internal audit over the last 4 years there is no evidence to suggest any misappropriation of public funds.

In addition, issues surrounding appropriate record keeping to substantiate the WSUMs claim for 2006-07 have also been resolved and SFC are satisfied there is no material error in the claim. Furthermore internal audit have issued clean audit reports in this area in the subsequent 4 years.

As a result of the work undertaken by both internal and external audit and the conclusion of the police investigation we have removed the emphasis of matter on the view given by the financial statements in previous years and our audit report on the financial statements for the year ended 31 July 2011 is unqualified.

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

- a) Internal Controls and audit approach
- b) Internal Audit
- c) Corporate Governance
- d) Value for Money
- e) Prevention and detection of fraud and irregularities
- f) Management letter – 2011
- g) Management letter – 2010

h) Summary of deviations

- 1.9 Our audit findings in each of the above areas are set out in the relevant sections of the report.
- 1.10 Our audit work was designed to enable us to form an audit opinion on the financial statements of the College and should not be relied upon to disclose all weaknesses in internal controls in relation to the Colleges systems and financial statements.
- 1.11 This report has been prepared for the purposes of the Board of Management and the Auditor General for Scotland and should not be issued to third parties without our prior written consent.
- 1.12 We would emphasise that our comments in this report are not intended to be any reflection on the integrity of the College staff whom we would like to thank for their help and assistance throughout our audit visits.
- 1.13 Should you have any queries on the contents of the Annual Report please do not hesitate to contact us.

Yours faithfully

Wylie & Bisset LLP

2. INTERNAL CONTROLS AND AUDIT APPROACH

2.1 In the course of our audit we planned to review the key elements of the College's systems of internal financial controls including the following areas;

- a) The College's medium and short term planning processes including budgets;
- b) The College's review of key performance indicators, financial and management accounts;
- c) The College's controls over income and expenditure;
- d) The College's financial controls and procedures;
- e) The input from the Audit Committee and the Finance Committee;
- f) The College's internal audit service.

2.2 In planning our audit work we have taken into account the following:

- a) The Code of Audit Practice issued by Audit Scotland;
- b) The Code of Audit Practice issued by SFC;
- c) Guidance issued by Audit Scotland;
- d) Guidance issued by SFC;
- e) The College's internal control procedures;
- f) The College's Corporate Governance procedures;
- g) The College's approach to Value for Money;
- h) The financial memorandum between SFC and the College.

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

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

2.4 Based on our review the College appears to operate appropriate internal financial controls. We have no management letter points to be brought to the Boards attention. See section 8 of this report.

3. FINANCIAL STATEMENTS

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

AUDIT REPORT

- 3.3 We are pleased to record that there are no qualifications in our audit report on the College's 2010/11 accounts, as, in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure for the year; and funds received have been applied for their intended purpose.

The Police investigation discussed in section 1.7 of this report has now concluded with no further actions being taken by Strathclyde Police. As a result of the work undertaken by both internal and external audit and the conclusion of the police investigation we have removed the emphasis of matter on the view given by the financial statements in previous years and our audit report on the financial statements for the year ended 31 July 2011 is unqualified.

FINANCIAL PERFORMANCE

- 3.4 The income and expenditure account shows an operating surplus for the year of £299,000. This is compared to a previous year surplus of £1,092,000 which was impacted significantly by the accounting entries required by FRS 17 'Retirement Benefits'. This is further detailed in section 3.6 below.

The operating surplus of £299,000 represents approximately 2% of overall income. The budget was based on an operating surplus of approximately £35,000.

- 3.5 The operating surplus for the year includes exceptional staff restructuring costs of £794,000 (2010 - £698,000). A significant number of management

interventions were made during the year to accommodate these exceptional costs including prioritisation of expenditure commitments.

- 3.6 The reduction in surplus can mainly be attributed to the accounting entries required by FRS17 'Retirement Benefits'. In 2011 these entries resulted in a charge of £26,000 to the I&E account. In 2010 there was a credit of £755,000 to the I&E account which followed the announcement of a change in how price inflation will be measured for the purposes of annual increases in public sector pensions. The annual indexation is now linked by reference to the lower Consumer Price Index ("CPI") rather than the Retail Price Index ("RPI").
- 3.7 The surplus brought forward on the income and expenditure reserve at 1 August 2010 was £648,000. After the surplus for the year of £299,000, the transfer from the pension reserve, the transfer from the restricted reserve and the transfer from the revaluation reserve are taken into account the surplus on the College's income and expenditure reserve at 31 July 2011 is £1,921,000.

Tangible Fixed Asset additions during the year amounted to £1,930,000. 84% of this was expenditure on land and buildings with the balance being committed on capital purchases to support curriculum areas, ICT equipment and furniture/fittings.

The College has significant reliance on the SFC for its funding which is largely from recurrent grants. In 2010/11 the SFC provided 82% of the College's total revenue income.

SUBMISSION OF ACCOUNTS

- 3.8 The accounts were submitted for audit on 17 October 2011, in line with the agreed timetable. The accounts submitted for audit were substantially complete. Working papers provided have generally been of a high standard and queries arising from the audit have all been resolved. Key staff were readily available for consultation throughout the audit process. Our audit work is complete and we have reported accordingly.

ISSUES ARISING

- 3.9 During the course of the audit a number of issues arose which were resolved in discussion with, or formally reported to the Director of Finance. This practice is an established part of the audit process. The remainder of this report draws to the attention of the Board of Management and the Auditor General any matters of particular significance or interest, which arose from the audit.
- 3.10 At 31 July 2011 the College was due to repay £384,000 to the Scottish Funding Council in respect of Student Support Funds which had been

received in advance but had been unspent in the year. This is due to be repaid by December 2011.

- 3.11 Pension / FRS 17: The pension liability in regard to the Strathclyde Pension Fund decreased by £778,000 to £1,803,000 based on the actuarial report commissioned by the College.

4. INTERNAL AUDIT

Objective and Approach

- 4.1 Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. The College, therefore, needs to have in place a properly resourced internal audit service of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
- 4.2 The College's internal auditors for 2010/11 were BDO LLP.
- 4.3 The College's internal audit strategic and operational plans are set out for the year ending 31 July 2011 in the Audit Needs Assessment.
- 4.4 In the course of the year ended 31 July 2011 the following internal audit reports were issued:
- a) Follow Up Review
 - b) HR/Payroll Integration
 - c) Asset Management
 - d) Student Funding
 - e) SDS Contract Review
 - f) Cafeteria Review
- 4.5 The Internal audit work carried out and the reports issued in the year were in line with the Audit Needs Assessment.
- 4.6 The Annual Report from the College's internal auditors gave substantial assurance for the year. No internal audit reports were outstanding at the date of this Annual report.

Opinion

- 4.7 An assessment was made of the adequacy of the Internal Audit function using a bespoke checklist. Reports issued by internal audit were also reviewed. Based on this work we concluded that the internal audit function is operating effectively and that we can place formal reliance on work of Internal Audit. Accordingly reliance was placed on the work of Internal Audit in all areas on which they reported during 2010/11 as detailed at 4.4.

5. CORPORATE GOVERNANCE

Objective and Approach

5.1 A review and assessment of the College's Corporate Governance systems relating to standards of conduct, openness and integrity was planned using a bespoke checklist. We also reviewed the following:

- a) The College's Corporate Governance Statement included in the financial statements for the year ended 31 July 2011;
- b) The College's Corporate Governance strategy;
- c) The minutes of meetings of key College committees issued during the year.

Opinion

5.2 Based on our review the College appears to operate appropriate Corporate Governance procedures and that management have adequate arrangements in place covering standards of conduct etc. These include for example Codes of Conduct for both Board Members and Staff. We found no matters therein to impact upon our audit opinion.

Recommendations

5.3 There are no recommendations in 2011 in this area.

6. VALUE FOR MONEY

Objective and Approach

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

Opinion

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

Recommendations

- 6.3 There are no recommendations in 2011 in this area.

7. PREVENTION AND DETECTION OF FRAUD AND IRREGULARITIES

Objective and Approach

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

Opinion

- 7.5 Our opinion on fraud and other irregularities is given in paragraph 7.7 on page 13 and is reached based on our work undertaken on fraud and the conclusion of the police investigation discussed below.

The investigation was undertaken after concerns were raised by incumbent Members of the Board of Management. An internal audit report was commissioned and was passed to Strathclyde Police which raised concerns with regards to misappropriation of public funds and the nature of the relationship between the College and associated bodies in terms of governance, probity and cost to the College. Wylie & Bisset LLP did not have prior sight of this report.

The investigation identified a number of issues in relation to governance, probity and cost to the College. The investigation was only formally concluded in June 2011 when an official response to the investigation was received by the College from Strathclyde Police. The Police indicated in their response that the issues under investigation had all been addressed by the College and Strathclyde Police have taken no further actions in this respect.

On commencement of the investigation the College immediately took steps to review and tighten controls and address the need for change going

forward. The actions taken by the College included a full Corporate Governance review, including a review of controls, appointment of new Board Members, a new Principal and Senior Management Team.

From the various work undertaken by both external audit and internal audit over the last 4 years there is no evidence to suggest any misappropriation of public funds.

In addition, issues surrounding appropriate record keeping to substantiate the WSUMs claim for 2006-07 have also been resolved and SFC are satisfied there is no material error in the claim. Furthermore internal audit have issued clean audit reports in this area in the subsequent 4 years.

- 7.6 As a result of the work undertaken by both internal and external audit and the conclusion of the police investigation we have removed the emphasis of matter on the view given by the financial statements in previous years and our audit report on the financial statements for the year ended 31 July 2011 is unqualified .
- 7.7 Overall we concluded that management takes fraud prevention and detection very seriously and has reliable controls in place to ensure that potential areas for fraud are detected and dealt with.

Recommendations

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

8. MANAGEMENT LETTER – 2011

- 8.1 The management letter for the year ended 31 July 2011 was issued by Wylie & Bisset following the audit for the year.
- 8.2 The 1 recommendations raised in 2010 management letter has now been resolved.
- 8.3 No new recommendations have been raised from the 2011 audit.

9. MANAGEMENT LETTER – 2010 and prior

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

Background	Recommendation	Priority	College Response	Responsibility /Timescale
a. Chiene & Tait have carried out an investigation into the relationship between the College and associated bodies. The results of this investigation have not yet been published.	<p>We recommend that the recommendations from the investigation are implemented as a high priority once the report has been finalised.</p> <p>Findings on revisit:</p> <p>We note that the investigation has now been concluded and there are no recommendations coming out of the investigation which require implementation.</p>	<i>High</i>	None Required	<i>Chair of the Board of Management</i>

10. SUMMARY OF DEVIATIONS

10.1 During our audit work, we identified no deviations relating to control matters. The table below summarises the numerical deviations uncovered during our audit sample testing. These deviations are wholly immaterial in the context of our audit and we do not propose any adjustment is made. We bring the deviations to the attention of the Board of Management as a requirement of the auditing standards.

Nature of Deviation & Reason for it	Actual Deviation £	Adjusted I&E Effect £	Adjusted BS Effect £
Prepayments understated	1,223	1,223	(1,223)
Accruals understated	2,497	(2,497)	2,497

APPENDIX A

STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

(As copied from annual accounts)

Statement of the Board of Management's Responsibilities

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

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

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

The financial statements are prepared in accordance with the Accounts Direction issued by the Scottish Funding Council, which brings together the provisions of the Financial Memorandum with other formal disclosures that the Scottish Funding Council require the Board of Management to make in the financial statements and related notes.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable

future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the College and prevent and detect fraud;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

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

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance and General Purposes Committee;
- Professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Approved by order of the members of the Board of Management and signed on its behalf
by:

Chair of Board of Management

15 December 2011

APPENDIX B

INDEPENDENT AUDITORS REPORT

(As copied from Annual Accounts)

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

We have audited the financial statements of Kilmarnock College for the year ended 31 July 2011 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Board of Management, Accountable Officer and Auditor

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

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

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

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1st January 2006 and any other terms and conditions attached to them for the year ended 31 July 2011; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

In addition, we report to you if, in our opinion, the college has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement of Corporate Governance and Internal Control reflects the college's compliance with the requirements of the Scottish Funding Council and report if, in our

opinion, it does not. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2011 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder by the Scottish Funding Council; and
- information which comprises the Operating and Financial Review included with the Annual Report is consistent with the financial statements.

Regularity

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1st January 2006 and any other terms and conditions attached to them for the year ended 31 July 2011; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

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

15 December 2011
Date

KILMARNOCK COLLEGE

Holehouse Road
Kilmarnock
KA1 7AT

15 December 2011

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

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the year ended 31st July 2011.

1. We acknowledge as members of the Board of Management our responsibility for ensuring:
 - a) the financial statements are free of material misstatements including omissions
 - b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2011.
 - c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records.
 - d) all other records and related information, including minutes of all management meetings, have been made available to you.
 - e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992, and
 - f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.
2. We have appointed BDO LLP as Internal Auditors to the College as required by SFC. All reports issued to the College and our responses to them have been made available to you.
3. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
4. The College has no liabilities or contingent liabilities other than those disclosed in the accounts.
5. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

15 December 2011

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

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

Yours faithfully

..... Chairman Principal & Chief Executive

SUMMARY OF POTENTIAL ERRORS AND DEVIATIONS

Nature of deviation & reason for it	Actual deviation £	Unadjusted I & E effect £	Unadjusted B/S effect £
Being prepayments understated	1,223	1,223	(1,223)
Being accruals understated	2,497	(2,497)	2,497

All of the above unadjusted amounts are immaterial in nature and have no effect on the audit opinion.