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Chartered Accountants

Oatridge College

Annual Audit Report for 2010/11 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2011/02

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Notice: About this report

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

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Nothing in this report constitutes a valuation or legal advice.

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

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Executive Summary

Corporate Governance

- The Group has shown a surplus for the year of £0.292 million (2009/10 - £0.774 million), against an original budgeted surplus of £0.030 million set out in the 2010 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC) in June 2010. The income and expenditure account balance at 31 July 2011 (excluding pension liability) was a surplus of £4.524 million (31/07/10 - £3.460 million). The surplus for the year includes exceptional restructuring costs of £0.168 million (2009/10 - £0.046 million).

- The College's Corporate Governance Statement confirms that the College has applied the principles set out in the June 2010 UK Corporate Governance Code.

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

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

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

Performance

- The College's Strategic Development Plan 2009/10 – 2011/12 sets out six key aims together with a number of objectives to be pursued to enable each of the aims to be realised. Subsequent to the year-end the College published a new Strategic Development Plan covering the period 2012 to 2015.

- The Board of Management and its committees consider the College's performance in implementing its strategic objectives. The Strategic Development Plans include Key Performance Indicator targets for 2009-2012 and now 2012-2015.

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

- The College has a Value for Money (VFM) policy setting out the objectives and responsibilities for securing VFM.

- Regular financial planning and monitoring information is considered by the Board and its committees.

Executive Summary

Financial Statements

- On 19 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2011 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.

- The College embarked on a voluntary severance scheme during the year which resulted in five acceptances from members of staff at a cost of £0.116 million. Annual savings of £0.142 million are expected to be realised from this action.

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

- The College has exceeded its WSUMs target for 2010/11 by 1,486 WSUMs (10.5%); (2009/10: exceeded by 1,818 WSUMs – 13.2%).

Outlook

- The future for all colleges will include change driven by funding constraints and Scottish Government plans for rationalisation of education provision to over 16s. A number of reviews and consultations are currently underway to inform change, with increased regionalisation or specialism a key message from the Scottish Government.

- Through the 'Going Further' project the College has been working in close partnership with other land-based colleges for some time, with course rationalisation taking place between Oatridge and Elmwood colleges during the year.

- In September 2011, following consideration of a number of options, the decision was taken to move to a full merger with Elmwood College, Barony College and the Scottish Agricultural College. Preparation for the merger is now underway.

Introduction

Background

1. 20010/11 was the fifth and final year of our five year appointment as external auditors of Oatridge College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance.

2. The framework under which we operate under appointment by Audit Scotland is as outlined in our Strategic Planning Memorandum and 2010/11 Annual Audit Plan issued on 18 April 2011 and considered and approved by the Audit Committee on 23 May 2011. 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 the proper treatment of estate refurbishment and expenditure; the treatment of proceeds from asset disposals; and compliance with relevant financial reporting standards;

   - recoverability of debtors;

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

   - achievement of commercial income target;

   - compliance with Financial Reporting Standard (FRS) 17 Retirement Benefits and provision for pension liabilities for early retirals;

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

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

Introduction

Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

5. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so

6. 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

7. 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

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

9. Table 1 provides a summary of the College's planned and actual financial results, based on the formal returns submitted, by the College, to the Funding Council. The actual results for 2010/11 include an exceptional restructuring cost of £0.168 million (2009/10 - £0.046 million).

Table 1: Comparison of planned and actual financial results

	2009/10 Actual £000	**2010/11 Planned £000**	**2010/11 Actual £000**	**2011/12 Planned £000**
Financial outturn:				
Surplus (excluding exceptional items)	220	30	460	37
FRS17 pension credit	290	-	-	-
Restructuring costs	(46)		(168)	-
Gain on sale of assets	310	-	-	-
Surplus (including exceptional items)	774	30	292	37
Income and expenditure reserves (excluding pension liability)	3,460	4,110	4,524	4,510
Cash balances	2,519	2,045	2,220	2,510

Source: Audited financial statements and 2010 and 2011 FFR

10. Overall, College income in 2010/11 has increased by £0.221 million (3.5%) over 2009/10 to £6.511 million. There has been a significant increase of £0.200 million (6.1%) in SFC grants to £3.469 million. The main components of this are an increase of £0.255 million (100%) in grants for capital projects treated as revenue and a decrease of £0.053 million (25.1%) in other grants.

11. Higher education and further education fee income have decreased by a total of £0.027 million (7.5%) in 2010/11 to £0.331 million. This has been partly offset by an increase in education contracts income of £0.017 million (3.4%) to £0.524 million.

12. Other grant income shows a decrease of £0.019 million on 2009/10 to £0.115 million, due to a reduction in European funds received.

Financial Position (Cont'd)

13. 'Other' income, which includes residences and catering income and income generated from the operation of the Scottish National Equestrian Centre, shows only a small increase on last year (£0.033 million) to £2.044 million. Residences and catering income includes income from a contract that attracts a significant number of language students to the College during the vacation period.

14. Expenditure in 2010/11, excluding exceptional restructuring costs, increased by £0.271 million (4.7%) over 2009/10 to £6.051 million. This was primarily due to the exceptional FRS 17 non-cash adjustment in 2009/10 relating to the Government's decision to link future pension increases to CPI rather than RPI which gave rise to a past service gain of £0.290 million.

15. Staff costs have increased by £0.063 million (2.1%) over 2009/10 to £3.098 million. Staff were awarded an average pay increase of 1% from 1 August 2010 and staff numbers (FTEs) increased from 86 last year to 93 in 2010/11 as a result of 11 new staff being taken on as part of the College's Future Jobs Fund Project.

16. The main components of the decrease in other operating costs are a £0.239 million (13.2%) decrease in teaching activities, a £0.222 million (16.2%) increase in other income generating expenses and a £0.139 million (12.2%) decrease in premises costs. There has been a general programme of cutbacks and saving money where possible during the year.

17. The Group's cash balance at 31 July 2011 was £2.220 million, a decrease of £0.299 million (11.9%) on the previous year, mainly resulting from a decrease in cash flow from operating activities, proceeds from the sale of assets and capital grants received and increased capital expenditure.

2010/11 WSUMs outturn

18. The College's outturn against its 2010/11 WSUMs target (including an additional rural allocation of 179 WSUMs and 250 WSUMs for Partnership Action for Continuing Employment (PACE)) is shown in table 2.

Table 2: 2010/11 WSUMs outturn

	2008/09	**2009/10**	**2010/11**
WSUMs target	13,740	13,740	14,169
WSUMs actual	14,682	15,558	15,655
Excess	942	1,818	1,486

Source: Audited SUMs returns

19. The College's internal auditors carried out the audit of the SUMs return for 2010/11. 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 provided that the FES return contained no material mis-statement.

Financial Position (Cont'd)

20. The 2011/12 SUMs target has been revised downward to 13,352 as a result of the funding position notified by the SFC in March 2011 and discussed further in paragraphs 50 to 51.

FRS 17 Retirement Benefits

21. 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 2009/10.

22. Note 23 to the financial statements highlights the College's net pension liability position of £0.596 million within the LPF. This has moved in the year from a net pension liability of £0.763 million at 31 July 2010.

23. 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 credit on pension assets and liabilities of £0.02 million (2009/10 – £0.032 million interest expense).

Table 3: LPF financial assumptions

	31 Jul 11 % p.a.	31 Jul 10 % p.a.
Salary increase rate	5.0	4.9
Pension increase rate	2.7	2.9
Discount rate	5.3	5.4
Expected return on assets	6.5	6.7

Source: LPF actuarial valuation for FRS 17 purposes at 31 July 2011 and 31 July 2010

24. 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 2009/10.

25. The Auditing Practices Board Practice Note 22 The Auditors' Consideration of FRS 17 'Retirement Benefits' – Defined Benefit Schemes requires auditors of entities accounting for multi-employer benefit schemes as if they were defined contribution to make enquiries of the Board regarding the basis for their conclusion that the entity's share of the scheme assets and liabilities cannot be identified. Auditors should also consider any relevant professional advice (for example actuarial or legal advice) that the Board may have obtained on this issue. Such enquiries were made via the Vice Principal and Finance Manager and we also considered advice provided to the College by the scheme actuaries to support the current accounting treatment.

Financial Position (Cont'd)

Capital Income and Expenditure

26. The College purchased assets with a value of £0.783 million in the year relating to land & buildings and fixtures, plant & equipment (2009/10 - £0.049 million). These have been funded from the College's own funds (including proceeds from land sales) together with deferred capital grants.

27. The College's has worked for a number of years to implement an Estates Strategy to carry out back-log maintenance and selective repair to buildings. As part of the 'Going Further' project a consultant reported during the year on a Strategic Estates Framework which identified work required by all partners and recommends the production of one estates and investment strategy for the new merged body (discussed further in paragraphs 55 and 56).

28. The report identified that the College needs to create additional learning and social space and improve the catering provision, and that the implications for further investment in the farm need to be fully understood.

29. As reported last year, the current fixed asset registers are updated annually on a spreadsheet and are very basic. The maintenance of a more detailed fixed asset register should be considered as part of the preparations for the proposed merger.

Provisions

30. The College has a provision in its balance sheet for £0.085 million (2009/10 - £0.092 million) relating to pension costs from early retirements awarded to former employees. The provision has been updated at 31 July 2011 using the actuarial tables provided by the SFC.

31. £0.049 million (2009/10 - £nil) is also provided for the Piggery (included in accruals). This is discussed further in paragraph 78.

Systems of Internal Control

Control Environment

32. Our work undertaken in relation to the 2010/11 financial statements audit, as in previous years, identified that the College operates with a small finance team with limited resources resulting in a lack of segregation of duties for some members of staff. This reduces the overall effectiveness of the College's internal control environment.

33. Review of bank reconciliations during our interim audit noted that although these had been prepared monthly there were differences that had not been fully investigated. The year-end bank reconciliation was found to contain a trivial un-reconciled difference.

34. Fixed asset registers have been discussed at paragraph 29.

Internal Audit

35. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Wylie & Bisset LLP provided internal audit services to the College in 2010/11. 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.

Systems of Internal Control (Cont'd)

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

Her Majesty's Inspectorate of Education (HMIE)

37. 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.

38. The report published by HMIE in February 2011 following its review of the College in November 2010 concluded that 'HMIE is confident that:

- learners are progressing well and achieving relevant, high quality outcomes;
- 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.'

Corporate Governance Arrangements

39. The College has developed its corporate governance arrangements over recent years and, during 2010/11, the Board of Management carried out a self-evaluation exercise. Board members continued to attend relevant training sessions, including those run by Scotland's Colleges. The corporate governance arrangements were reviewed by the College's internal auditors during the year who confirmed that these were 'strong'.

40. 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.

41. 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) 'UK Corporate Governance Code' that are relevant to the sector. It was originally envisaged that the framework would replace the 'Guide for College Board Members' published by the Association of Scotland's Colleges in 2006 however a new Guide is currently being developed as part of a separate exercise. At the present time the framework document has not been finalised and no timescale has been set for this.

Corporate Governance Arrangements (Cont'd)

42. In addition, Scottish Ministers have commissioned an Independent Review of College Governance. The review is being chaired by Professor Russel Griggs, chair of Dumfries and Galloway College board. The Review will develop recommendations which will help bring a new focus to further education governance while maintaining the important balance between accounting for public funds and preserving the benefits of an autonomous sector. The Review is expected to conclude by the end of 2011.

43. At its meeting on 19 December 2011 the Board will be provided with information on the effect of the implementation of the Bribery Act as of 1 July 2011. An Anti-Bribery and Corruption Statement was drafted to demonstrate that the Board had considered the Act and had put appropriate procedures in place.

Corporate Governance Statement

44. 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.

45. 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.

46. The College's corporate governance statement for 2010/11 states that the College complies with all the provisions of the June 2010 UK Corporate Governance Code in so far as they apply to the further education sector, and it complied throughout the year ended 31 July 2011. The 2010 version of the Code included a small number of changes relevant to the sector. These related to: new principles on the role of the Chair of the Board and non-executive Board members; new and amended principles on the composition of, and appointments to, the Board; a new principle on the time commitment expected of Board members; a new provision that the Chair should agree and regularly review the training and development needs of each Board member; and an amended principle on the Board's risk management responsibilities.

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

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

48. During 2010/11 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

49. The College has appropriate arrangements in place, including current versions off its Standing Orders, Financial Regulations, Whistleblowing Policy and Procedure, Fraud Policy and Treasury Management Policy. These documents are reviewed and updated every three years, with Standing Orders reviewed during the year and the others reviewed last year.

Outlook

2011/12

50. SFC funding to the College for 2011/12 is significantly lower than in previous years. The 2011 FFR shows a budgeted 2011/12 surplus of £0.037 million (2010/11 £0.030 million). This is based on total budgeted income of £5.937 million (2010/11 £6.295 million) and expenditure of £5.900 million (2010/11 £6.265 million).

51. The actual position for the three months to the end of October 2011 is a surplus of £0.035 million, which is £0.026 million ahead of budget, due mainly to timing fluctuations. Expenditure continues to be closely controlled across all areas and the final position is expected to be on budget.

Beyond 2011/12

52. The future for all colleges will include change driven by funding constraints and Scottish Government plans for rationalisation of education provision to over 16s. A number of reviews and consultations are currently underway to inform change.

53. Scottish Government proposals indicate that funding mechanisms will be simplified in future, possibly as early as 2012/13. With some noted exceptions funding will follow regional need, based on demography and economy, rather than continue to follow previous patterns based on historic performance. Rationalisation of course provision and removal of duplication is expected to be achieved through closer working or mergers of institutions. One of the exceptions to the regional pattern is in relation to the countryside colleges, where there is recognition of the benefit in an arrangement based on specialism.

54. The College has taken several steps to prepare for the changes, involving Board members in the process. In addition to identifying savings to address immediate funding reductions preparation for the merger is now underway (discussed in paragraph 56).

Collaboration

55. Through the 'Going Further' project the College has been working in close partnership with other land-based colleges for some time. In March 2011 the Colleges in the project signed a Concordat. As part of the close working course rationalisation was undertaken with Greenkeeping courses transferring to Elmwood College and Engineering and Agriculture courses transferring to Oatridge during the year.

56. In September 2011, following consideration of a number of options, the decision was taken to move to a full merger with Elmwood College, Barony College and the Scottish Agricultural College. Preparation for the merger is now underway.

Performance

Introduction

57. 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.

58. No mandatory performance audit studies were identified by Audit Scotland for the College during 2010/11. Audit Scotland's planning guidance identified optional follow-up work on improving public sector purchasing and the use of consultancy services. This was discussed with management but neither follow-up was undertaken.

Strategic and Operational Plan

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

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

61. Following a period of consultation, including input from students, the College published a new Strategic Plan in September 2011 covering the period 2012-2015. Each strategic aim is supported by objectives and actions. Timing, targets, performance and outcomes are assigned to each action.

Risk Management

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

63. Internal audit reviewed the College's risk management arrangements during the year and concluded that they were 'strong'.

Performance Management

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

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

Performance Management (Cont'd)

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

Self-Evaluation

67. At its meeting on 9 May 2011 the Board of Management and its committees undertook annual reviews of performance. The results of the reviews were considered by the Board and an action plan established to address identified areas for improvement and development needs.

Financial Management

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

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

70. The College does not operate a commitment accounting system at present or provide budget holders with on-line view only access to the financial ledger. We reported last year that given the forecast financial position over the next few years good quality, timely budget monitoring information will be essential. It was recognised that there would be resource implications in enhancing the current finance system to provide the above features however we recommended last year that this should be considered together with the roll out of e-Procurement by 'APUC' (Advanced Procurement for Universities and Colleges), which is due in 2012.

71. The College is forecasting a small surplus of £0.010 million for Equestrian Facilities Scotland Ltd (EFSL) for 2011/12. The company has been operational since February 2007 and the financial statements for the fourth full year of trading in 2010/11 show a surplus of £0.008 million (deficit £0.010 million for 2009/10). A number of factors have affected the results to date including the fact that EFSL applies the Group policy of writing-off all equipment costing less than £0.010 million per individual item to the income and expenditure account in the period of acquisition. The loss of key members of the management team in prior years affected the results of EFSL although a new temporary management structure has been put in place to mitigate this risk. Also, the poor current general economic conditions continue to have an impact on results, particularly in relation to income from corporate events. A review of the company's staffing structure has been undertaken with a view to reducing costs.

Value for Money (VFM)

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

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

Financial Statements

Audit Opinion

74. On 19 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2011 and on the regularity of the financial transactions reflected in those financial statements.

Audit Completion

75. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 4 the three key elements of the audit process that we require the College to engage with.

Table 4: Key elements of the audit process

Completeness of draft financial statements A set of draft financial statements was received at the time of the final audit visit. These were largely complete for financial information although the Board of Management's OFR and Corporate Governance statements had still to be drafted. An updated draft of the financial statements incorporating the agreed audit adjustments, the OFR and Corporate Governance statement was not received until 27 November 2011.
Quality of supporting working papers In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. A set of supporting working papers was provided, largely in line with this list, during the course of the audit.
Response to audit queries We are pleased to note that all audit queries were dealt with in a timely manner during our audit fieldwork however pressure of work meant that there was a delay in receiving answers to our final outstanding points.

Audit and Accounting Adjustments and Confirmation

76. In table 5 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process. An explanation for the one material adjustment is given at paragraph 77 below.

Table 5: Audit and accounting adjustments – impact on the financial statements

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
Interest payable	3			
Bank loan				3
Interest accrual				
Trade debtors			4	
Trade creditors				4
Debit balances on creditors list				
Other operating expenses	1			
Cash at bank				1
Unknown bank difference				
Staff costs	4			
Other taxation and social security				4
Adjustment to year end PAYE/NI liability to actual				
Staff costs	1			
Pension fund contributions				1
Adjustment to year end pension liability to actual				
Other taxation – Lennartz VAT			2	
Other taxation and social security				2
Adjustment to Lennartz VAT for change in VAT rate				
Other operating expenses	1			
Accruals				1
Accrual of BT invoice				
Other operating expenses	1			
Accruals				1
Accrual of solicitors fees				
Deferred capital grants			3	
Other grant income		3		
Additional release of dcg				
Carried forward	11	3	9	17

Audit and Accounting Adjustments and Confirmation (Cont'd)

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
Brought forward	11	3	9	17
Other income	8			
Income and expenditure A/C				8
Opening I&E reserve difference				
Provision			25	
Exceptional restructuring costs		25		
Reversal of green keeping provision				
Fixed Asset Investments			127	
Revaluation reserve				127
Inclusion of investment inherited on incorporation				
	19	28	161	152
	=====	=====	=====	=====

Description of Material Adjustment

77. It was identified that the College held shares with a market value of £0.127 million at 31 July 2011 in a listed Investment Trust. This was inherited on incorporation of the College in 1993 however not previously identified for inclusion in the College's financial statements. The SORP on Accounting for Further and Higher Education requires listed investments held as fixed assets to be shown at market value and a prior period adjustment was made to comply with this, with a corresponding credit to the revaluation reserve.

78. There is one unadjusted audit difference which is not material but is above trivial. The unadjusted error would have reversed the provision for the Piggery (refer paragraph 31 above) and increased the surplus for the year by £0.049 million.

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

Confirmations and Representations

80. We confirm that as at 15 December 2011, 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.

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