Reid Kerr College

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

Audit for the year ended 31 July 2011

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EXECUTIVE SUMMARY

Financial Highlights

The College achieved a surplus of £222k (2010 £989k) on its income and expenditure account for the year.

The financial statements disclose total reserves of £9.66m (2010 £8.28m). The 2011/12 financial forecast return anticipates a surplus of £121k.

Corporate Governance

From our review of Corporate Governance arrangements within Reid Kerr College ("the College"), we believe the Corporate Governance statement to be neither misleading nor inconsistent with other information made available to us during the course of the audit process. The Corporate Governance statement does not disclose any significant weaknesses in the systems of internal control. Internal audit (Deloitte) concluded that "On the basis of work undertaken in the year ended 31 July 2011, we consider that the College has an adequate framework of control over the systems we examined during the year".

The Operating and Financial Review should provide a comprehensive account of the College's activities and meet the requirements of the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 ("SORP 2007"). See our further comments on the OFR on page 23.

Management letter points have been raised on the following issues:

- the Register of Interests was not up-to-date at the date of our onsite visit. We recommend that this is updated annually.
- the Board of Management's self-evaluation did not occur during the course of the year. We recommend that the Board evaluates its performance at least annually.
- the chair of the Finance Committee is also a member of the audit committee, which is not in line with Corporate Governance best practice.

Note that all of these points were included in our 2010 report.

Financial Statement Audit

We have completed our audit work in respect of the financial statements of the College and are satisfied that they present a true and fair view of its financial position for the year ended 31 July 2011. Following approval of the financial statements by the Board of Management on 16 December 2011 our audit report will express unqualified opinions on (i) the financial statements of the College for the year ended 31 July 2011 and (ii) regularity.

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

Management provided draft financial statements and supporting working papers in line with the agreed timetable and they were complete and of a good standard.

The 2010/11 audit process brought us into contact with a number of staff within the College. We wish to place on record our appreciation of the co-operation extended to us by those personnel.

OVERVIEW, SCOPE AND INDEPENDENCE

Overview

- The purpose of this report is to highlight and explain key issues arising from our audit of the financial statements of Reid Kerr College ('the College') for the year ended 31st July 2011.
- This report covers those matters we believe to be material in the context of our work. It was prepared from general information obtained during the audit process, including management accounting information and discussion with management and staff of the College. It has been prepared solely for the use of the College and the Auditor General for Scotland and should not be shown to any other person without our express permission in writing. We do not accept responsibility for this report to any other person and we hereby disclaim any and all such liability. We do not, in preparing this report, accept or assume responsibility for any other purpose or to any other person to whom it is shown or into whose hands it may come save as expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so at entirely their own risk.
- The corporate governance statement within the College's financial statements states that the College has been fully compliant with guidance on corporate governance for the year ended 31 July 2011. We identified no issues of concern in relation to fraud and irregularity nor did we identify any major errors or weaknesses during our audit. In general the College's systems of internal control appear to be adequate.

Significant Accounting and Audit Issues

Detailed on pages 16 to 19 are the key accounting and audit issues identified during our work:

- Electricity Provision
- Future grant funding
- Bribery Act
- FRS 17 retirement benefits
- SUMs achievement
- ESF debtor and income
- Non-Recognition of Fee waiver Debtor
- Libyan debtor provision

Unadjusted Audit Differences

We are required by International Standard on Auditing (UK & Ireland) 260 to bring to your attention audit adjustments that we have identified and which the Board of Management is required to consider. A schedule of such adjustments is included in Appendix 1. We have not included items under £2,430 which we consider to be clearly trivial. Total unadjusted audit differences identified by our audit work would increase the surplus of £135k by £87k and would increase net assets of £16.33m by £87k. The Board will need to consider the materiality of these identified misstatements in the context of the financial statements taken as a whole.

OVERVIEW, SCOPE AND INDEPENDENCE
Continued...

Key areas	Summary
Scope	The accounting rules and regulations applying to Further Education Colleges are specifically laid out in various documents as discussed on page 5 of this report. We can confirm that the College is in compliance with the regulations and disclosures required to be made in the financial statements in respect of these documents. We can confirm that in preparing the financial statements the College has complied with the Accounts Direction for Scotland's Colleges and Universities issued under Circular SFC/35/2008. The audit of Reid Kerr College was performed in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. This report has been issued to College management and will be considered by the Audit Committee.
Independence	Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to "those charged with governance". In our view this term refers to the Board of Management and we confirmed our independence to them in a letter on 6 May 2011. Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our Conduct of Professional Services Manual. In addition, we have issued supplementary written guidance and embedded the requirements of the Standards in our internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We confirm that the firm complies with the APB Ethical Standards and, in our professional judgment, is independent and objective within the meaning of those Standards. In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

AUDIT FRAMEWORK

Audit Framework

Audit Framework

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

Audit Bodies

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

College Responsibilities

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

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

AUDIT FRAMEWORK (Continued…)

Audit Framework

Auditor's Responsibilities and Approach

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

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

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

AUDIT FRAMEWORK
(Continued…)

Audit Framework

College Guidance

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

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

Financial Memorandum

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

Accounts Direction

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

Guidance on Audit

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

Statement of Recommended Practice (SORP)

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

FINANCIAL HIGHLIGHTS

Key areas	Summary
Financial Highlights	• **Income and Expenditure Account:** The College achieved an operating surplus of £222k, 0.91% of total income in respect of the year-ended 31 July 2011 (2009/10: £989k and 3.9%, Forecast: £409k and 1.67%). This represented a £767k decrease on the prior year and a £187k decrease on forecast. See pages 10 and 11 for further comments on income and expenditure. • **Balance Sheet:** The financial statements report net assets at 31 July 2011 of £16.4m, reflecting an increase of £1,245k over 2010. The increase is attributable to the £222k surplus generated in the year, an actuarial gain in respect of the pension scheme of £1,158k, partly netted off by a reduction in deferred capital grants of £135k. See pages 12 and 13 for further comments on the balance sheet.
Cash Flow	During 2010/11, the College experienced a net (outflow)/inflow of cash of (£133k) (2009/10: inflow of £735k).
Financial Forecast	The initial 2010/11 financial plan forecasted a surplus of £409k. Other than significant FRS17 adjustments the main reason for the reduced surplus compared to the original budget relates to the additional costs of operating in North African markets, along with increased agency and outsourcing costs (these costs are included within other income generating activities and administration costs in the financial statements). The forecast of income, expenditure and cash balances for the College for 2011/12 shows that both income and expenditure are expected to fall in 2011/12, resulting in a surplus of £121k (before FRS 17 adjustments).

FINANCIAL HIGHLIGHTS
Income and Expenditure Account

Income

- The table below summarises the main sources of income for 2010/11 and 2009/10.
- The College's WSUMs target for 2010/11 was 85,021 and the College delivered 87,083. As a result, the College will not be liable to repay any recurrent grant to the Scottish Funding Council in 2011/12.
- A significant proportion of income is received from the Scottish Funding Council, with the proportion of income from this source having increased from 72% in 2009/10 to 73% due to decreases in other income streams.
- An decrease in SFC grant income of £287k. This is a result of a reduction of £272k in estates capital funding and a reduction in other grant income (due to a reduction in PACE funding) partly offset by an additional £69k of core grant.
- A decrease in other sources of income of £436k. Contributing to this are decreases in; income for adult literacy programmes, income received by the Creative Arts Department and income received from the Open University.

Income and Expenditure Account	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Scottish Funding Council Grants	17,864	18,151	(287)
Tuition Fees and Education Contracts	2,572	2,660	(88)
Other Income	4,019	4,455	(436)
Investment Income	3	5	(2)
Total Income	**24,458**	**25,271**	**(813)**
Expenditure (see analysis on next page)	**(24,236)**	**(24,282)**	**46**
Surplus	**222**	**989**	**(767)**

FINANCIAL HIGHLIGHTS
Income and Expenditure Account (continued…)

Expenditure

Total expenditure decreased by £46k (0.14%), in comparison to 2009/10, to £24.24m. The table below summarises the main categories of expenditure for 2010/11 and 2009/10. The most significant movements are as follows:

- an increase in staff costs of £1,186k due mainly to a FRS 17 credit adjustment of £835k in the prior year which primarily resulted from the change in the methodology for calculating future pension increases (this compares to a charge of £122k in the current year) in addition to an increase in severance pay in the current year, which is partly offset by lower average employee numbers in the year; and
- a reduction in other operating expenses of £884k which substantially results from a £529k reduction in maintenance costs due to the one off refurbishment costs in the prior year relating to the YMCA building,
- a reduction in the depreciation charge for the year as a result of the current year depreciation figure being based on the lower revalued figure for land and buildings,
- a reduction in interest payable mainly due to the £150k reduction in the finance cost associated with the defined benefit pension (the charge is only £3k this year).

Expenditure Analysis	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Staff Costs	17,382	16,196	1,186
Other Operating Expenditure	5,684	6,568	(884)
Depreciation	902	1,085	(183)
Interest Payable	268	433	(165)
Total Expenditure	**24,236**	**24,282**	**(46)**

FINANCIAL HIGHLIGHTS
Balance Sheet

The balance sheet shows an increase of £1,245k in net assets as at 31 July 2011 compared to the previous year end. Significant movements include:

- An increase in tangible fixed assets of £2.5m as a result of the fixed asset additions of £3.4m, mainly relating to the new ICE facility, partly netted off by the depreciation charge for the year of £902k.
- An increase in debtors of £883k. This is a result of an increase in the European funding accrued income by £792k on the prior year, an increase in the prepayments/accrued income balance by £289k on the prior year partly netted off by a reduction of £198k in the trade debtors balance on the prior year. The European funding balance has increased due to delays in the payment of amounts due to the College by Renfrewshire Council. The increase in the prepayments/ other accrued income is mainly due to maintenance agreements which were not in place in the prior year. The reduction in the trade debtors balance merely relates to the absence of several fairly large debtors that were present in the prior year.
- A decrease in cash of £133k as a result of a positive operating cash flow less a cash outflow relating to the funding of the new ICE facility.
- An increase in creditors due within one year of £1,568k. This is a result of a £1,275k increase in accruals and deferred income which reflects the £1,534k increase in accrued expenses and accrued purchase ledger expenses partly netted off by smaller reductions in other accrual balances. The £1,534k increase results from substantial invoices having been received this year relating to the ICE new build project for which there is no comparable invoice in the prior year. In addition to this there has been an increase in the bank loans and overdraft creditor by £183k < 1 year which is the result of the new loan taken out in the year to fund the new ICE facility.
- An increase in creditors due after one year (excluding the early retirement provision) of £1,382k. This is as a result of the new of Clydesdale Bank loan being taken out in the year.
- A decrease in the pension liability of £1,033k, which has been brought about by the FRS17 actuarial valuation.

FINANCIAL HIGHLIGHTS
Balance Sheet (continued…)

Balance Sheet Category	31 July 2011 £'000	31 July 2010 £'000	Variance £'000
Fixed Assets	29,244	26,749	2,495
Stock and Debtors	2,575	1,695	880
Cash	30	191	(161)
Creditors: Amounts falling due within 1 year	(5,949)	(4,381)	(1,568)
Creditors: Amounts falling due after 1 year	(5,973)	(4,591)	(1,382)
Provisions for Liabilities and Charges	(1,664)	(1,612)	(52)
Pension Liability	(1,854)	(2,887)	1,033
Net Assets	**16,409**	**15,164**	**1,245**

FINANCIAL HIGHLIGHTS Financial Forecasts

Financial Forecasting

- The initial 2010/11 financial plan forecasted a surplus of £409k. The table below shows the reconciliation between the forecast outturn and the actual amount generated during the course of the year. The main reasons for the movement from the forecast to the actual outturn were as follows:
  - Decrease in other income, mainly due to lower commercial income as a result of demand for courses from abroad (in particular) being unpredictable.
  - Decrease in payroll costs resulting from a reduction in the number of staff.
  - Increase in other operating expenditure due to a rise in other income generating activities costs and administration costs.
  - FRS 17 adjustments which cannot be estimated by the College at the time that they produce the FFR.

Forecast vs. Actual	31 July 2011 £'000	31 July 2010 £'000
Forecast outturn per budget (excluding FRS 17 adjustments)	**409**	**205**
(Decrease)/ Increase in SFC grant income	(34)	921
(Decrease)/ Increase in other income	94	1,093
Decrease in payroll costs	46	181
(Increase) in other operating expenditure	(168)	(2,093)
Actual outturn at year end (excluding FRS 17 adjustments)	**347**	**307**
Movements explained above	**(62)**	**102**
(Increase)/Decrease in FRS 17 costs	**(125)**	**682**
Actual outturn at year end (including FRS 17 adjustments)	**222**	**989**

FINANCIAL HIGHLIGHTS
Financial Forecasts (continued…)

Financial Forecasting

- The table below summarises the forecast income, expenditure and cash balances for the College for 2011/12.
- Both income and expenditure are expected to fall in 2011/12, resulting in a reduced surplus. The reduction in income will be due to the sector-wide cut in SFC grant funding in addition to a fall in tuition fee income. College expenditure will have to be closely monitored, in particular staff costs, in order to achieve the forecasted surplus.

Forecast Income, Expenditure and Cash Balances for 2011/12	£'000
Income	21,505
Expenditure	(21,384)
Forecast surplus for the year ending 31 July 2012	**121**
Cash balance at 31 July 2011	(624)
Forecast movement in cash during 2011/12	125
Resulting cash balance at 31 July 2012	(499)

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

Reid Kerr COLLEGE

FRS 17

- The College participates in The Strathclyde Pension Fund which is a pension scheme providing benefits based on final pensionable pay. The College has quantified its share of the assets and liabilities of the scheme by instructing Hymans Robertson LLP to prepare an FRS 17 report for accounts purposes as at 31 July 2011. The impact on the College's balance sheet of a change in one of the many variables involved in the actuarial valuation can be substantial and the College needs to be satisfied that the assumptions used in the actuarial valuation are correct for the College.

BDO Conclusion

- The actuarial assumptions used in the valuation report have been deemed to be reasonable and the College has correctly incorporated the figures in the report into their financial statements.

Electricity Provision

- The college has created a provision of £300k within accruals for the estimated cost of unbilled electricity usage in the main Renfrew and Renfrew North buildings since 2005. The College had recorded a provision of £390k in the prior year but now feels that a figure of £300k would be more realistic based on up to date information. While the College has not at this stage received any written communication from Scottish Power it is understood that Scottish Power is aware of a fault in a meter which has caused recorded usage to be understated and has installed equipment to allow it to assess the extent of the under-billing. The College has commissioned an independent assessment in order to assist it in discussions and negotiations with Scottish Power. Total electricity costs charged through the Income and Expenditure Account over the five years up till the start of the current financial year(excluding the £390k prior year accrual) is £384k and College management have used this as a basis for estimating the potential under-billing.

BDO Conclusion

- Based on information available and in the absence of an assessment from Scottish Power or the results of the College's own review of the potential liability it is not possible to determine an accurate estimate but we have accepted the need for a provision and management's rationale in quantifying the amount.

BDO

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

ESF Provision

- The College has recorded a debtor of £1.38m (included within a larger ESF debtor of £1,700k) and a creditor of £824k (included within accruals and deferred income) in relation to ESF funding from 4 projects run in partnership with Renfrewshire Council. The College receives money up front from the Council and then pays back an element of this. While the College has not received any written communication from the Council with regards to the recoverability of this net debtor there has been ongoing verbal communication and the College believe it will receive the amount in full.

BDO Conclusion

• Based on information available and in the absence of written communication from Renfrewshire Council it is not possible to determine precisely how likely it is that the amount will be received in full, however we have accepted managements assertion that it will be received.

Libyan Debtor Provision

- We note that the College has made full provision for amounts receivable from *Smart Specialists International* and *National Oil Wells Drilling and Workover* amounting to £142,828 due to management's view of the uncertainty of funds being repatriated from Libya.

BDO Conclusion

•The debt due seems to be properly billed for services rendered and has not been disputed. There is, however, clearly some uncertainty due to the situation in Libya and therefore the prudent view taken by management seems reasonable.

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

Unrecorded Additional Fee Waiver Income

- With respect to fee waiver the College is not in a claw-back position with regards to 2010/11, and due to the high level of demand amongst students the College is in a position to receive an additional fee waiver grant. Calculations were agreed showing that the College may receive an additional fee waiver grant of £251k. However, due to the economic downturn and the resultant increase in the number of students with fee waiver needs across the college sector, SFC may not be able to meet the demand from all colleges for additional fee waiver grant due to funding constraints. The potential additional fee waiver income has not been recognised in the financial statements.

BDO Conclusion

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

Future grant funding

The College, in line with the wider public sector, is facing significant uncertainty over future funding levels and the impact and scope of public sector funding cuts.

BDO Conclusion

Despite the fact that funding cuts are likely to affect the College in the upcoming financial year and beyond, the College believes that it will be able to operate within the funding restrictions imposed for 2011/12 with it forecasting a surplus for the period. We have deemed this to be a reasonable assumption.

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

SUMS achievement

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

BDO conclusion

The College's audited certificate to SFC shows a WSUMs total for the year to 31 July 2011 of 87,083. This figure is in excess of its target for the year of 85,021 and accordingly there should be no claw back of SFC grant for non achievement of SUMs target.

Bribery act

The Bribery Act 2010 came into force on 1 July 2011 and places some obligations on College management.

BDO conclusion

We have identified the key features of the Bribery Act within the Audit Planning Memorandum provided to the College on 21st April 2011.

CORPORATE GOVERNANCE

Corporate Governance
We reviewed the College’s corporate governance arrangements. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The college has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. The corporate governance arrangements of an organisation are the means by which strategy is set and monitored, managers are held to account, risks are managed, stewardship responsibilities are discharged and institutional sustainability is ensured. The Code of Audit Practice requires that auditors review and report on the College’s corporate governance arrangements as they relate to: • the College’s reviews of its systems of internal control, including reporting arrangements; • the prevention and detection of fraud and irregularity; • standards of conduct and arrangements for the prevention and detection of corruption; and • its financial position.
The Board of Management is required to report on its compliance with the *“UK Corporate Governance Code (2010)”*.
Board of Management: has nine formally constituted committees which have specific terms of reference and act with delegated authority from the Board (including the Strategic Planning Committee, Audit Committee, Business & Enterprise Committee, Finance Committee, HR Committee, Remuneration Committee, Estates Committee, Student Affairs Committee and the Learning and Teaching Committee). • ***Composition:*** the Board is comprised of 15 members as at 31 July 2011; hence, the Board has no more than the recommended maximum of 16 members. The skills of the members of the Board include relevant expertise in education, management consultancy, human resources, finance and accountancy. The College representatives include the Principal, a member of the teaching staff, a member of the support staff and a member of the students’ body. The College follows the principle that the Board has a majority of members who are external and independent (i.e. neither staff nor student of the College). The College Clerk to the Board of Management is A. Nelson, who meets the best practice requirement that the role is held by an individual who is independent of College management. The recommended maximum period of office for board members of 12 years has been adhered to. • ***Timing:*** met the recommendation for meeting not less than 4 times during the year, with 4 meetings throughout 2010/11. Therefore, the Board met at sufficiently regular intervals during the course of the year in order discharge its duties effectively.

CORPORATE GOVERNANCE
(Continued…)

Corporate Governance (continued…)

Board of Management (continued…)

- ***Responsibilities:*** It was noted that no one individual has unfettered powers of decision-making. Arrangements are in place to enable the Chairman to hold meetings with the other non-executive governing body members without executives present when deemed appropriate. Protocols are in place to ensure that the impact of senior staff undertaking positions on external governing bodies is fully considered.

- ***Development and Evaluation:*** Management is aware of the importance of ensuring that new Board members are provided with a timely induction and appropriate development programme. However, there is no formal process to ensure that the Board reviews its effectiveness nor has it undertaken a formal and rigorous evaluation of its own effectiveness and that of its committees at regular intervals. There is now a process whereby the individual committees undertake a self evaluation exercise but this process is yet to begin. A management letter point has been raised regarding this.

Audit Committee: is comprised of 3 members as at 31 July 2011. The committee, with both members being non-executives, meets the recommendation that there be at least 2 independent non-executive members. In addition, with one member being a qualified accountant, the Board has satisfied itself that it has met the recommendation that at least one member of the committee has recent and relevant financial expertise. While the Chair of the Board of Management was not also a member of the Audit Committee it is noted that the Chair of the Finance Committee is also a member of the Audit Committee. This is not in line with Corporate Governance best practice.

Remuneration Committee: is comprised of 3 members as at 31 July 2011. It is recommended that if the Chair of the Board of Management is a member of the Remuneration Committee he or she should not chair the committee – the College follows this recommendation.

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

System of Internal Control

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

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

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

CORPORATE GOVERNANCE
(Continued…)

Review of Internal Audit
Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control systems established. The College therefore, needs to have in place a properly resourced internal audit service of good quality. Internal audit services are provided by Deloitte. We normally make an assessment of the adequacy of the internal audit output. We planned to take cognisance of the following reports (as identified in our planning report of May 2011): 1) Review of core financial controls 2) Business continuity and disaster recovery 3) Commercial income 4) Corporate governance; and 5) Follow-up report.

Risk Management
The Board has responsibility for the identification and management of risks facing the College. A risk assessment matrix of the exposure to risk, and the extent to which these risks are controlled, including implementation of actions to mitigate risk, is updated and presented to the Board of Management annually to review the College's response to identified risks. This identifies, prioritises and assesses risks to the College according to the likelihood and the impact of each risk.

CORPORATE GOVERNANCE
(Continued…)

Prevention and Detection of Fraud and Corruption

The College's arrangements for preventing and detecting fraud and corruption were assessed during the audit. This assessment showed the arrangements to be operating satisfactorily. The College has in place a comprehensive fraud prevention policy, in addition to a more specific whistle-blowing policy. Both of the policies are readily available to staff on the College's intranet and are also published on the College's website. The fraud prevention policy also includes a plan on the response to any frauds identified. No frauds were identified by the College in 2010/11. In addition to the aforementioned policies, the College has also implemented tendering and procurement procedures to mitigate the risk of financial irregularity.

Operating and Financial Review (OFR)

Additional guidance on the content of the operating and financial review (OFR), the inclusion of which is recommended within the 2007 SORP, was issued by the Scottish Funding Council on 2 October 2009. As noted in our 2010 report the guidance states that it would be helpful if a core set of performance indicators could be incorporated within the OFR to meet best practice and facilitate comparisons between the performances of different colleges. Reid Kerr College has again not included this level of detail in its OFR.

MANAGEMENT LETTER POINTS

Key Areas	Issue and impact	Recommendations	Management Reponses
Register of Interests	At the time of the audit, the Register of Interests has not been updated since March 2009. Although the declaration of interests is a standing issue on the board agenda, the college should still ensure that the register of interests is completed and signed on an annual basis to ensure that related parties are being adequately disclosed.	The College should ensure that board members sign the Register of Interests on a timely basis.	Agreed
Board of Management Self-Evaluation	The Board of Management's self-evaluation day was postponed and ultimately did not occur during the course of the year. The self-evaluation should address each committee's effectiveness, individual member's performance, the Chair's performance, and an assessment of the committee's responsibilities and resources. We do recognise that a self-evaluation process where each sub-committee evaluates its own performance is to begin post year end.	We recommend that the Board of Management evaluates its performance annually. The Board should introduce formalised self-assessment procedures to determine how effectively it is discharging its responsibilities.	Agreed
Committee membership	The chair of the Finance committee is also a member of the Audit Committee. This is not in line with Corporate Governance best practice.	Ideally there should be exclusivity of membership between Finance and Audit Committees however the College may wish to consider inviting the Chair of the Finance Committee to meetings of the Audit Committee without being a member of that committee.	To be considered

PREPARATION OF THE FINANCIAL STATEMENTS

Preparation of the Financial Statements

Our Audit Planning Memorandum, issued to the College in April 2011, outlined the various stages of the audit process, as set out in the timetable below. In relation to the key factors of the production of the financial statements, our assessment was as follows:

Completeness of Draft Financial Statements: We received a set of draft financial statements on 19th September 2011, the first day of audit fieldwork. The draft financial statements were of excellent quality. Most issues were resolved by the end of fieldwork and a revised draft received on 26 October 2011. Any outstanding matters were satisfactorily resolved prior to receipt of the final Financial Statements and audit sign off.

Quality of Supporting Documentation: Prior to the beginning of our audit fieldwork, we issued an "Information to be Prepared by Client" request setting out the required supporting documentation to be in place for the beginning of audit field work. The supporting documentation that was received was of an extremely high standard with little requirement to obtain additional schedules from the Finance staff

Response to Audit Queries: As in prior years, management provided good quality and timeous responses to all of the audit queries that were raised with them.

APPENDIX 1
Unadjusted Audit Differences

Unadjusted Audit Differences

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

There were no unadjusted audit differences identified during our work

		Income & Expenditure Account		Balance Sheet	
Unadjusted Audit Differences	**£’000**	**DR £’000**	**CR £’000**	**DR £’000**	**CR £’000**
Surplus for the Year before Audit Adjustments	222				
No unadjusted audit differences were noted					
Total Adjustments					
Surplus for the Year after Audit Adjustments	222				

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

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