

ANNUAL REPORT TO THE BOARD OF GOVERNORS FROM THE AUDIT COMMITTEE for the year to 31st July, 2005

1. Administrative Matters

Members, 2004/05: Ms. S. Macpherson (lay governor/Convenor) from 21.09.04)
Mr. J.A. Clark (lay governor)
Professor S. Blackmore (lay governor) from 06.12.04
Mr. R.B. Robertson (lay governor) from 06.12.04
Professor G.D. Owen (co-opted governor)
Professor I.F. Marrian (lay governor/Convener) until 20.09.04)

In attendance 2004/05: Mr. K.J. Mill (Director of Finance) until 31.12.04
Professor B.D. MacGregor, Vice-Principal
External Audit
Mr. J.A. Bishop (Ernst & Young)
Mrs. A. Graham (Ernst & Young)
Internal Audit
Mr. S. Cunningham, (Scott-Moncrieff)
Mr. C. Brown, (Scott-Moncrieff)
Mr. M.W. Wood, College Secretary

- 1.1 Scheduled, quorate meetings were held on 21st September and 6th December, 2004, and 6th May, 2005. In addition a joint meeting with the Finance Sub-Committee was held on the 5th November, 2004 to consider the Annual Accounts and the Auditors' Management Letter.
- 1.2 At the meeting on 21st September, the Committee reviewed its Constitution and Terms of Reference, it being **noted** that the Committee's membership be increased to five lay Governors and that the Internal Auditors should periodically undertake "value for money" studies.
- 1.3 The Committee received reports from the Director of Finance on Fraud Response, Debt Recovery and the Agresso Finance System. The Committee **approved** a two-year extension to the initial appointment of Ernst & Young as External Auditors, to 31st December, 2006.

2. Internal Audit

- 2.1 The internal audit service for the 2004/05 was provided by Scott-Moncrieff.
- 2.2 During the year to 31st July 2005, the Internal Auditors presented Reports on the following areas to the Committee: Statutory and Regulatory Compliance; Budget-setting and Monitoring; Strategic and Operational Planning; Compliance with SHEFC Financial Memorandum; Strategic and Annual Internal Audit Report; Register of Internal Audit; Updated Risk Register. In addition, the Committee received follow-up reports on the 2003/04 audit year.

Where the subject matter was appropriate to their specific area(s) of responsibility, certain Reports were also referred to other Board Committees for their interest.

- 2.3 The key findings arising out of the above Reports have been summarised by Scott -Moncrieff, as follows:

(a) Overview

On the basis of the reviews undertaken to date the Auditors' overall conclusion arising from the audit work performed is that the level of control in general, and the awareness of the need for control in particular, is good throughout the College.

(b) Individual Audit Reports and Recommendations

During the year, the Internal Auditors issued 8 reports (including a follow-up report on the status of implementation of prior year recommendations). In total, 18 recommendations were made as follows:

Priority 5	Very high risk exposure – Major concerns requiring immediate Board attention No recommendations
Priority 4	High risk exposure – Absence/failure of significant key controls Nine recommendations
Priority 3	Moderate risk exposure – Not all key control procedures are working effectively Three recommendations
Priority 2	Limited risk exposure – Minor control procedures are not in place/not working Effectively Five recommendations
Priority 1	Efficiency/housekeeping point One recommendation

In accordance with established practice, all major recommendations contained in audit reports were re-produced with the Minutes of the Audit Committee, which were in turn presented to the Board on a periodic basis.

3. External Audit

- 3.1 The College's External Auditors, Ernst & Young LLP, audited the annual financial statements and gave an unqualified report on the Accounts, 2003/04. A report on Audit Planning for the year ended 31st July, 2005 was presented to the Committee at the meeting on 6th May, 2005.
- 3.2 The Board received Ernst & Young's Management Letter for the Academic Session and Financial Year, 2003/04 at their meeting on 13th December, 2004.

4. Value for Money Programme

- 4.1 Underpinning all Internal Audit Reports is the requirement for the College to pursue good value for money policies and practices wherever possible.

5. Other matters

5.1 Financial and Control Systems Development

During the year a review of the College's Finance System (Agresso) was undertaken, in the light of the recent upgrade of the system. The system was found to have embedded well and to be meeting most of the identified requirements detailed in the original system specification, although the on-going training and development of users was required to maximise effectiveness.

5.2 Fraud and Irregularity

No instances of fraud and irregularity came to light during the year under review.

5.3 Code of Audit Practice

The Committee continues to carry out its duties and responsibilities in accordance with the SHEFC Code of Audit Practice, as published in October, 1999.

6. Statement of Adequacy and Effectiveness of Internal Control Systems

6.1 Having regard to:

- (i) the programme of work undertaken over the year by both the External and Internal Auditors;
- (ii) the opinions and findings expressed in internal and external audit reports submitted to the Committee;
- (iii) the stated management responses to the recommendations contained in the reports of External and Internal Auditors,

the Committee is of the opinion that the adequacy and effectiveness of the College's internal control systems are satisfactory.