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Moray College

Report to the Audit Committee, the College and the Auditor General for Scotland on the 2022/23 audit

23 August 2024

Contents

Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our report to the Audit Committee ("the Committee") of Moray College ("the College") for the 2022/23 audit. The report summarises our findings and conclusions made in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Committee in May 2023.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Our financial statement audit is complete. We have issued an unmodified audit report.

We provided management with comments and suggested changes based on review of the draft Annual Report and Accounts. We have confirmed that all necessary changes have been made.

The auditable parts of the Remuneration and Staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8.

No material errors have been identified during our audit. Two unadjusted misstatements in excess of our reporting threshold of £16,000 have been identified, which are included within the Appendix to this report.

Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Our financial statement audit is complete.

Conclusions from wider scope audit work

We note that Moray College is facing significant financial sustainability challenges. In its current state, Moray College is not financially sustainable. We note that there is a financial recovery plan in place with the aim of returning the College to a position of financial sustainability. If all plans and assumptions included in the financial recovery plan are achieved, Moray College will report a deficit position of £2.1m in 24/25. This consists of two one off costs in relation to the implementation of the financial recovery plan. See pages 18 to 25 of this report for detailed conclusions from our wider scope audit work.

Control Findings

Control findings and recommendations are included on page 30 of this report.

Added value

Our aim is to add value to the College by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the College promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also included our "sector developments" on page 27 where we have shared our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the College sector.

Pat Kenny
Lead audit partner

Annual Report and Accounts Audit

Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This page summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements		Prompt delivery of working papers regarding management judgements.	N/A
Adherence to deliverables timetable		No issues to raise regarding adherence to deliverables timetable.	N/A
Access to finance team and other key personnel		Active involvement of the finance team throughout the course of the audit process.	N/A
Quality and accuracy of management accounting papers		Management accounting papers prepared to the expected quality and accuracy.	N/A
Quality of draft Annual Report and Accounts	!	A number of presentational and disclosure points raised on the draft version of the Annual Report and Accounts.	Page 17.
Response to control deficiencies identified	!	Two control deficiencies identified during our audit, further details can be found on page 14.	Page 14.
Volume and magnitude of identified errors		Low volume of misstatements identified during the audit.	N/A

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Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Determine materiality

When planning our audit, we set our materiality at £308,000 based on forecast gross expenditure. We have updated this to reflect final figures and completed our audit to a materiality of £322,000 and a performance materiality of £225,000. We report to you in this report all misstatements above £16,000.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit Committee's attention our conclusions on the significant audit risks. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. We would like to draw to your attention to page 30, which details controls findings reported during our audit.

Our audit report

We have issued an unmodified audit report.

Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls	✓	DI	Satisfactory	Consistent
Property valuations	✗	DI	Satisfactory	Consistent
Operating within the funding provided	✓	DI	Satisfactory	Consistent
Completeness of Income	✓	DI	Satisfactory	Consistent

Consistency of judgements with Deloitte's expectations

- Inconsistent
- Improvement required
- Consistent

Controls approach adopted

- DI Assess design & implementation

Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have tested the design and implementation of controls in relation to journals and accounting estimates.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used our Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.
- We have reviewed accounting estimates for biases that could result in material misstatements due to fraud.
- We have not identified any material unusual transactions outside the normal course of business of the College.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias; and.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any instances of management override of controls and have no findings to report in this area.

Significant risks (continued)

Property valuations

Risk identified and key judgements

The College held £24.8m of property assets (land, dwellings & buildings) at 31 July 2021 which increased to £31.1m as at 31 July 2022, due to upwards revaluations as a result of the College undertaking an interim revaluation exercise during 2021/22. As at 31 July 2023, the College held £31.1m of property assets.

The College is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with its modern equivalent asset. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Deloitte response and challenge

We have tested the design and implementation of key controls in place around the property valuation.

We used our valuation specialists, Deloitte Real Asset Advisory, to provide insight on the movement in BCIS rates and obsolescence factors during the year which may have an impact on the overall valuation of Moray College property assets.

We have challenged management's assessment for material changes in value for those property assets not subject to a full valuation during the year.

We have reviewed and tested the valuation disclosures made in the Annual Report and Accounts.

Deloitte view

We have raised a control finding in relation to the lack of impairment review of the College estate in the years where a full revaluation does not take place. Details of this finding are on page 30. We have no other issues to report to the Committee on this risk.

Significant risks (continued)

Operating within the funding provided

Risk identified and key judgements

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should consider the risk of fraud and error on expenditure.

We therefore considered the fraud risk to be focused on how management operate within the funding limits set by the Scottish Funding Council. There is a risk that Moray College could materially misstate expenditure in relation to year-end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year-end and invoices processed around the year-end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year-end.

Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Funding Council. Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Obtaining independent confirmation of the resource limits allocated to Moray College by the Scottish Funding Council;
- Performing focused testing of accruals and prepayments made at the year-end; and
- Performing focused cut-off testing of invoices received and paid around the year-end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Funding Council.

Significant risks (continued)

Completeness of Income

Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

We therefore considered the income streams of Moray College and concluded that the risk of material misstatement due to fraud is pinpointed to non-recurrent funding. Specifically, the recognition of grant income with conditions attached and the recognition of income with performance conditions attached.

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of deferred and accrued income around year-end.

Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the completeness of income. Our work in this area included the following:

- Evaluating the design and implementation of controls around recognition of non-recurrent income;
- Performing focused testing of grant income where there are conditions of entitlement including clawback clauses; and
- Performing focused testing of income with performance conditions attached.

Deloitte view

We have raised one unadjusted misstatement in relation to deferred capital grants of £27k. Further details of this adjustment can be found on page 31.

Other Areas of Audit Focus

Defined benefits pension scheme

Background

Retirement benefits to employees of the College are provided by the North-East Scotland Pension Fund (NESPF), which administers the Local Government Pension Scheme (LGPS) and is managed by the Aberdeen City Council, and the Scottish Teachers Superannuation Scheme (STSS), which is administered by the Scottish Public Pensions Agency (SPPA).

The net pension liability decreased from £5.5m in 2020/21 to £0.4m in 2021/22. As at 31 July 2023, this increased to a net asset position of £6.4m. The increase is a combination of an increase in the fair value of the net assets and a slight decrease in the liabilities as a result of demographic changes and financial assumptions.

Mercer Limited are the College's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements. The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies and no significant changes in the membership of the scheme or accrued benefits have occurred during the year. As a result, we have not identified this as a significant risk.

Deloitte response

Our work in this area included the following:

- We have assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We have reviewed and challenged the assumptions made by Mercer Limited;
- We have obtained assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We have noted the potential mpact of the Virgin Media pensions case on the accounts, and have instructed management to include disclosure within the subsequent events note;
- We have assessed the reasonableness of the College's share of the total assets of the scheme with the Pension Fund Annual Accounts;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and
- We have reviewed the disclosures within the accounts against the Code.

Deloitte view

We have raised on unadjusted misstatement in relation to the Goodwin ruling assumptions adopted of £21k. Further details of this adjustment can be found on page 31.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
Fully depreciated assets on fixed asset register As part of our work performed on PPE, it was noted that there were assets which were fully depreciated and over 10 years old which were still on the fixed asset register.	We recommend that management review the fixed asset register and remove any assets that are no longer held by the college or in use.	Recommendation noted and accepted by management.
Lack of impairment review of College Estate during years of no full revaluation We note that there is no impairment review process at the College during the years where a full revaluation does not take place. This creates a risk that the value of the college estate is overstated.	In years where no full revaluation exercise is performed, management should conduct their own impairment review.	Recommendation noted and accepted by management.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

Moray College's Annual Report and Accounts have been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of the Charities Accounts (Scotland) Regulations 2006(as amended). Following our audit work, we are satisfied that the accounting policies are appropriate.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their report and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the College on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the Annual Report and Accounts

We have issued an unmodified audit report.

Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment of the continued existence of a particular body.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

We have no matters to bring to the attention of the Committee in relation to expenditure and income in the Annual Report and Accounts not being incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Your Annual Report and Accounts

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

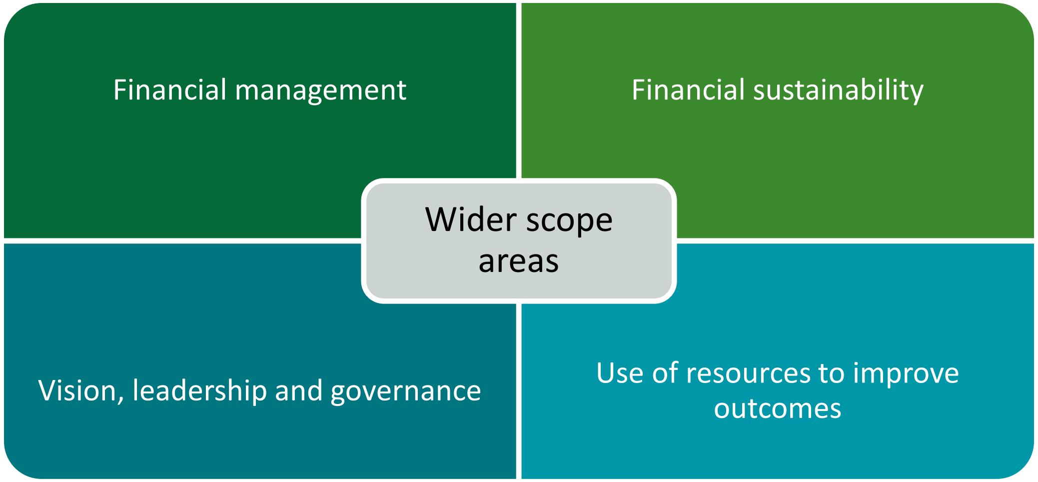
	Requirement	Deloitte response
The Performance Report	The report outlines the College's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the College.	We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes based on review of the draft Annual Report and Accounts. We have confirmed that all necessary changes have been made.
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted. We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes based on review of the draft Annual Report and Accounts. We have confirmed that all necessary changes have been made. We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction.

Wider scope audit

Wider scope requirements

Overview

As set out in our audit plan, reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



In its planning guidance, Audit Scotland has also highlighted climate change as a national and sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits.

Our audit work has considered how Moray College is addressing these risks, and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

Wider scope requirements (continued)

Financial management

Was financial balance achieved?

Is there sound budgetary processes in place?

Is the control environment and internal controls operating effectively?

Financial Management

Significant risks identified in Audit Plan

We note that the previous auditors did not identify any significant weaknesses in the College's systems of internal control. During 2022/23, the Director of Finance began a short-term dual role, being the Director of Finance at both Moray College and Shetland College. Given the increased financial pressures faced by the College, which will need greater strategic input, there is a significant risk that there is insufficient senior finance capacity to support the Board in its decision making.

Current year financial performance

We note that Moray College faced significant financial challenges during 2022/23, which are projected to increase across future years. However, from a financial management perspective, we note that the final outturn position was in line with the 2022/23 budget set at the beginning of the year.

The forecast outturn position for Moray College in 2022/23 was a deficit position of £1.0m. This was made up of total income of £13,996k and total expenditure of £14,996k. The final outturn position achieved was a deficit of £1,014k, which was in line with forecast.

Finance team structure

The finance team remained consistent throughout the audit year. We note that Shelly McInnes (Director of Finance) has left the College in March 2024. Included within our work on leadership and governance is our assessment of changes to the leadership team at Moray College.

Budget processes

There are clear governance arrangements in place regarding the setting and approval of the College budget. The budget for 2022/23 was prepared by Shelly McInnes (Director of Finance) and presented to the Finance and General Purposes Committee (F&GP) 15th June 2022. Following review and approval by the F&GP Committee, the budget was then presented to the Board on 23rd June 2022. We note from our review of meeting minutes that there are appropriate levels of review and challenge of the budget at both Finance Committee and Board level.

Deloitte view – financial management

We have not noted any issues with the financial management and budgetary processes at the College. The Board has effective financial planning and management arrangements in place.

Wider scope requirements (continued)

Financial sustainability

Have any short-term financial challenges been identified and addressed through a financial recovery plan?

How appropriate are the arrangements put in place to address any identified funding gaps?

Are there plans in place to support how efficiency targets are to be met?

Financial Sustainability

Key risk identified

The financial environment in which Moray College operates is challenging, with the impact of declining student numbers, inflationary pressures and national pay negotiations increasing this challenge. Financial sustainability was reported as one of the most significant risks faced by the College in its 2021/22 Annual Report and Accounts, this remains a significant risk in 2022/23. We have therefore identified a significant wider scope risk that the robust medium to long term planning arrangements are not in place to ensure that the College can manage its finances sustainably and deliver services effectively.

Current year assessment

Moray College is facing significant financial sustainability challenges. In 2022/23 the college recorded a deficit of £1,014k. In 2023/24 the forecast deficit is £2,605k. It is for these reasons that the College has a Financial Recovery Plan in place. This recovery plan is designed to return Moray College to a balanced budget by July 2025.

Financial Recovery Plan

The key element of the Financial Recovery Plan is the Voluntary Severance Scheme (VSS). It is proposed that this will reduce headcount by 38 FTE, achieving a saving of £1.6m. This is in addition to the 15.9 FTE reduction in headcount and £719k already saved through the job freeze. If the VSS does not achieve the required take-up, then compulsory redundancies will be considered. The key risk surrounding this scheme is that with either the voluntary or compulsory option, funding is required from the SFC for Moray to implement. We note that £1.6m of funding to run the Voluntary Severance Scheme has been confirmed in June 2024, and Moray College have started to implement the scheme.

Based on income and expenditure assumptions, the Recovery Plan aims to get the College to a financially sustainable position by October 2025. If the targets of the recovery plan are achieved, Moray College will report a deficit position of £2.1m in 24/25. This consists of two one off costs in relation to the implementation of the financial recovery plan. . The board has unanimously approved this Recovery Plan as they see it as the only route currently available to restore financial sustainability to Moray College.

Deloitte view – financial sustainability

We note that Moray College is facing significant financial sustainability challenges. In its current state, Moray College is not financially sustainable. We note that there is a financial recovery plan in place with the aim of returning the College to a position of financial sustainability. If all plans and assumptions included in the financial recovery plan are achieved, Moray College will report a deficit position of £2.1m in 24/25. This consists of two one off costs in relation to the implementation of the financial recovery plan.

Wider scope requirements (continued)

Vision, leadership and governance

Does the body have a clear vision and strategy?

Is there evidence that leaders are adaptable to a changing environment?

Do members and senior managers have a culture of cooperation and working constructively in partnership?

Vision, leadership and governance

Risk Identified

The previous auditors concluded that the key features of good governance were in place and operating effectively throughout the year. During 2022/23, the Chair of the Board has resigned, with the Vice Chair taking up the position on an interim basis. We have therefore identified a significant wider scope risk around the effectiveness of the governance and leadership arrangement.

Strategic Plan

We note from our review of the Strategic Plan in place at Moray College that the college has a clear vision and strategy which included a clear set of priorities. In addition to this, a key focus is being placed on sustainability which is embedded within the governance arrangements at the College.

Adapting to a changing environment

We note from our review of committee meeting minutes and our attendance at audit committee meetings that the leaders of the College are adapting to a changing environment. This is mainly evidenced through the Financial Recovery Plan in place at the College which focuses on the financial sustainability challenges facing the College.

Changes to senior staff

There were no changes to the senior leadership team during the 2022/23 financial year. We note the departure of two key senior staff at the college in 2024. The Deputy Principal left the college in February 2024, with no current plans in place to appoint a replacement. The Director of Finance left the College in March 2024. We note that a replacement was in place from May 2024. There is a risk that changes to the composition of the senior team at the College will create knowledge gaps and have an adverse impact on the culture and working environment of key individuals at the College.

Deloitte view – Vision, leadership and governance

We note that the composition of the senior leadership team remained consistent throughout the 2022/23 financial year. However, the departures of two key members of the leadership team at the beginning of 2024 presents a risk that knowledge gaps will be created, and the departures will have an adverse impact on the culture and working environment of key individuals at the College.

Wider scope requirements (continued)

Use of resources to improve outcomes

Can the body demonstrate that there is a clear link between money spent and outputs and the outcomes delivered?

Have alternate models of delivery been considered?

Are user needs and views included in the evaluation of service delivery and quality?

Use of resources to improve outcomes

Risks identified in Audit Plan

As discussed under financial sustainability, there is a significant risk that the College does not have plans in place to manage its finances sustainably. There is also a risk that performance management systems are not sufficient to demonstrate how resources are being directed to improve outcomes.

Use of resources to improve outcomes

As noted on the financial sustainability section of our report, the College is in the process of actioning a financial recovery plan. This plan looks to achieve savings through a reduction in headcount, as well as through a re-modelling of the curriculum.

Moray College is going through a period of significant financial challenge. However, we note that there are plans in place which look to protect the education and training needs of both present and future students.

There is an acknowledgement of the impact the curriculum changes and redundancies may have on both staff and students going forward from the Board; however, it is noted these are essential spend reductions to improve the financial position of the College going forward.

Student recruitment

One of the key KPI’s in place at the College is in relation to student recruitment. This is monitored and reported on the monthly basis to the College Board. We note that the key metrics are HE and FE student recruitment. In 2022/23, the College delivered 19,168 FE credits against a target of 19,000 SFC grant-funded credits, equivalent to 100.9% of the target. UHI Moray delivered a total full-time equivalent (FTE) HE students of 662.8 FTE against a target of 830 FTE, equivalent to 80% of the target.

Deloitte view – Use of resources to improve outcomes

We note that the College is going through a period of significant financial challenge. This challenge is being responded to by the College in the form of a Financial Recovery Plan, which looks to achieve savings through a reduction in headcount and a re-modelling of curriculum. We note from our work performed on financial sustainability and the financial recovery plan that the College has governance arrangements in place to demonstrate the best use of available resources to improve outcomes.

Wider scope requirements (continued)

Climate change

Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Question	Moray College position
1. What targets has the body set for reducing emissions in its own organisation or in Its local area?	Included within the Strategic Plan of Moray College is a section on sustainability. This includes targets that the College has set to achieve net carbon zero emissions by 2045. However, we note that this does not include interim targets to measure progress. We recommend that these are incorporated into the sustainability section of the Strategic Plan.
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	Moray College has a Carbon Management Plan in place. This management plan sets out the College's strategy and how it intends to achieve its targets.
3. How does the body monitor and report progress towards meeting its emission targets internally and publicly?	See recommendations above in relation to monitoring progress against emissions targets.

Wider scope requirements (continued)

Climate change (continued)

Question	Moray College position
4. Has the body considered the impact of climate change on its financial statements?	No specific consideration has been given to the impact of climate change on the financial statements. Given the size of the organisation, the expected impact on the financial statements is minimal.
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	Included with the Moray College Annual Report is a section on environmental sustainability. Included within this section are details of the College's Carbon Management Plan, Sustainability Strategy Implementation Group, and the Sustainability Strategy itself.

Deloitte view – Climate change

We note that Moray College have a sustainability target to achieve net carbon zero emissions by 2045. This does not include interim targets to measure progress. We recommend that these are incorporated into the sustainability section of the Strategic Plan.

Moray College has a Carbon Management Plan in place. This management plan sets out the College's strategy and how it intends to achieve its targets.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the College discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the College, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the college.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Glasgow | 23 August 2024

Sector developments

Scotland's Colleges 2023

Audit Scotland Briefing Paper

Background and overview

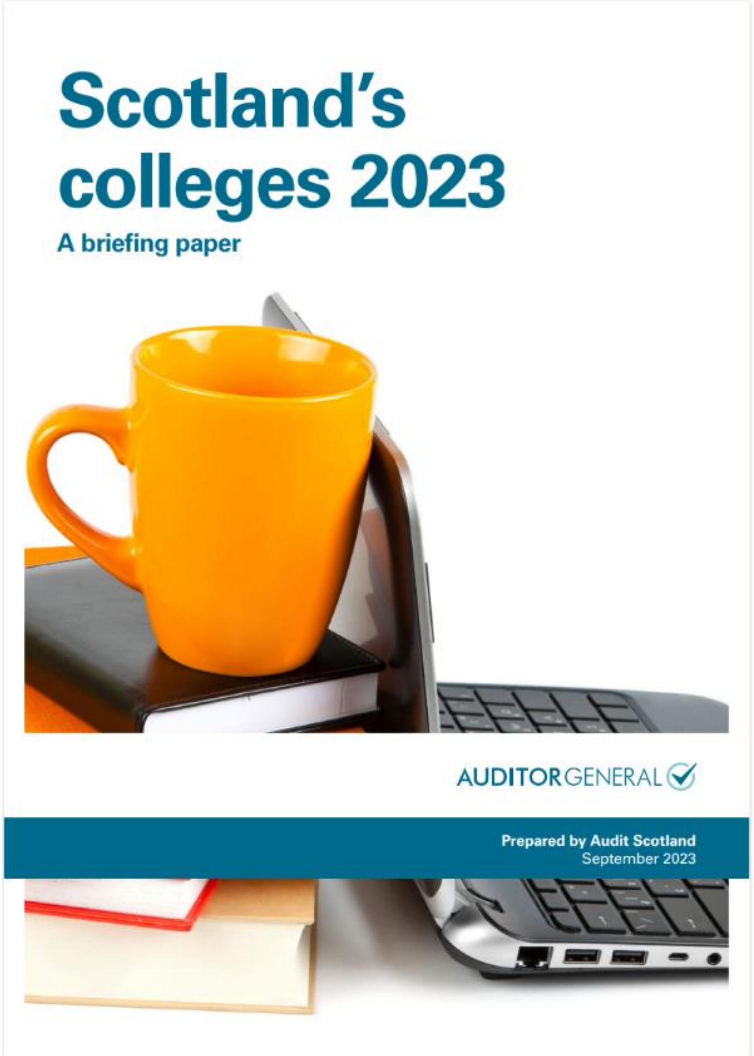
Scotland's Colleges offer academic and vocational courses to develop people's skills and knowledge for work, continued study or general interest. The Scottish Government has a central role in setting policy and funding the college sector.

Key Findings:

1. Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.

2. The Scottish Government's funding for the sector has reduced by 8.5% in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.

3. Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.



Appendices

Control findings

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
Lack of impairment review of College Estate during years of no full revaluation We note that there is no impairment review process at the College during the years where a full revaluation does not take place. This creates a risk that the value of the college estate is overstated. We recommend that in years where no full revaluation exercise is performed, management should conduct their own impairment review.	Recommendation noted and accepted by management.	Medium	Management	FY24
Fully depreciated assets on fixed asset register As part of our work performed on PPE, it was noted that there were assets which were fully depreciated and over 10 years old which were still on the fixed asset register. We recommend that management review the fixed asset register and remove any assets that are no longer held by the college or in use.	Recommendation noted and accepted by management.	Low	Management	FY24

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

		Debit/(credit) SOCNE £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Deferred capital grant	[1]	27	(27)			N/A
No allowance has been made in relation to the Goodwin case.	[2]		(21)		21	N/A
Total		**27**	**(48)**		**21**	

[1] From our testing of deferred capital grants, we note that the amount recognised in the Annual Report and Accounts does not agree to the amount per the supporting information provided by management. We note an under-deferral of capital grant funding of £27k.

[2] No allowance has been made in relation to the Goodwin case in the FY23 liability value. In our view an allowance should be made, as a past service cost. Based on available information, we believe the cost of this would be £21k. We note that this is a judgemental misstatement based on assumptions used by actuarial specialists.

Audit adjustments

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
None noted.		

Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
None noted.		

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the College to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the College to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.

Audit work performed:

In our planning we identified the risk of fraud in operating within the funding provided, completeness of income and management override of controls as key audit risks.

During course of our audit, we have had discussions with management and those charged with governance.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the College and our objectivity is not compromised.
Fees	The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the College, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

	£
Auditor remuneration	43,050
Audit of College – additional fees*	TBC
Audit Scotland fixed charges:	
• Pooled costs	(6,380)
• Audit support costs	1,120
• Sectoral cap adjustment	(8,740)
Total expected fee	**29,530**

There are no non-audit fees.

*During the audit in 2022/23, we have been required to perform additional procedures in relation to our wider scope work. These procedures resulted in additional senior time being required on the audit. Following the completion of the audit, we will commence conversations with the Finance team regarding additional fees for this work. After agreement of any additional fees with the Finance team we will report back the final position to the Audit Committee.