

# Aberdeen College

## Annual Report on the 2011/12 audit



Prepared for the Board of Management of Aberdeen College  
and the Auditor General for Scotland  
January 2013

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# Summary

## Key messages from the 2011/12 Audit

1. We have given an unqualified opinion on the financial statements of Aberdeen College and its group and on the regularity of the financial transactions reflected in those financial statements.
2. In autumn 2012, it came to light that there may be no legislative basis for colleges to use 31 July as their year end and therefore there was a possibility that a modified opinion would be required for all college accounts. Following discussion between the Assistant Auditor General, the Scottish Funding Council and Scottish Government colleagues, consensus was reached and consequently, an unqualified opinion was issued in January 2013.
3. We concluded that governance and internal controls were generally operating satisfactorily.
4. In 2011/12 the group reported a surplus of £1.4 million representing 3.5% of income and held a reserve balance of £22.5 million at 31 July 2012. This will provide a cushion for the college as the outlook for the sector generally is one of financial challenges arising from the reduction in Scottish Government funding and other factors.
5. Education Scotland undertook a review of the college in 2011/12 which highlighted many areas of strength. In response to sector structural reforms, Aberdeen College is working with Banff and Buchan College to identify possible models for the development of further education in the area.

## Introduction

6. The purpose of this report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Audit Plan presented to the Audit Committee on 17 July 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. The Board of Management of Aberdeen College is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Status of the Audit

8. Our work on the financial statements is now complete. The issues arising from the audit were considered by the Audit Committee on 20 November 2012.

## Financial statements audit opinion & representations

9. We have given an unqualified opinion on the financial statements of Aberdeen College and its group for the year ended 31 July 2012 and on the regularity of the financial transactions reflected in those financial statements. The accounts were certified on 22 January 2013 which is beyond the normal deadline of 31 December for submission of the audited accounts to the Scottish Funding Council. The reason for the delay in respect of the 2011/12 accounts is explained in paragraphs 10 to 12.
10. Section 18(3) of the Further and Higher Education (Scotland) Act 1992 (the 1992 Act) requires the financial year to be to 31 March. Section 18(4) gives Scottish Ministers power to change that date by an Order. While a change in date took place in 2000, we were unable to locate the relevant Statutory Instrument which we had anticipated would have been required to enable the change to 31 July. In autumn 2012, we held a provisional view that there was no legislative basis for colleges to use 31 July as the year end and consequently, the likely options were a retrospective order or a modification to the audit report for the part of the audit opinion that stated that the accounts had been prepared in accordance with the 1992 Act.
11. Discussions to resolve the matter at a national level continued through to January 2013 between the Assistant Auditor General, the Scottish Funding Council and Scottish Government officials. Auditors were requested not to certify college accounts until a solution was identified. In the meantime, Aberdeen College's Board of Management met as normal in December 2012 to consider and approve the audited accounts leaving the matter of the audit opinion to be resolved in due course.
12. Our consideration of the terms of the 1992 Act and the passage of time has made this issue quite complex. While the 1992 Act provides the power to change the date by an Order, the relevant provision is exempted from the more usual requirement for an Order to be in the form of a Statutory Instrument. While the actual Order has not been located, assurance was drawn from evidence of a clear intention to issue an Order and that it was acted upon in that colleges changed their accounting year end following the issue of an Accounts Direction. Having taken these matters into consideration in consultation with other college auditors, I was able to issue an unqualified opinion on 22 January 2013.
13. Errors identified during the audit of the financial statements were discussed with the Vice Principal and largely corrected. In overall terms, the corrected amounts had a net effect of reducing the surplus for the year by £145,000 and increasing the group's net assets by £18,000. Following agreement with Finance, a further adjustment of £8,000 was not been made in respect of cut off errors.

14. The more significant items arising from the audit and reported to the Audit Committee included:
  - **VAT partial exemption adjustment:** During the year, the college uses an estimate of the amount of input VAT it can recover under the partial exemption scheme each quarter. This requires a final adjustment at the year end to reflect the actual position for the financial year. In recent years the final adjustment has resulted in an amount being due to HM Revenues and Customs, however, it has not been the practice to reflect this potential liability within the financial statements. In consultation with Finance staff, a broad estimate was calculated informed by trend information from previous years and this amounted to £145,000. The revised accounts were amended to reflect the partial exemption adjustment as a provision with a prior year comparative. This increased other operating expenses and creditors by £145,000 and reduced the surplus for the year.
  - **Pension costs:** The college accounts for pension contributions to the Local Government Pension Scheme as if it were a defined contribution scheme. This approach is taken because the actuary cannot separately identify the assets and liabilities of the college on a consistent and reasonable basis. Instead the actuary identifies the assets and liabilities of the north east of Scotland colleges on an aggregate basis which means they receive a pooled valuation and share a common contribution rate. On this basis we are satisfied with the approach in respect of 2011/12. This is consistent with the accounting treatment adopted in previous years.
15. As part of the completion of our audit we seek written assurances from the Principal on aspects of the accounts and judgements and estimates made. A letter of representation under International Standard of Auditing (ISA) 580 was provided to the Principal and this was signed and returned prior to the independent auditor's opinion being certified.

## Governance and internal control systems

16. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their board members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
17. Through its accountable officer or equivalent, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
18. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity

## Audit Committee

19. Scrutiny of the effectiveness of the internal control processes within Aberdeen College is undertaken by the Audit Committee. The terms of reference for the committee is in largely in line with the UK Corporate Governance Code 2010 (the Code).
20. The Code and the Accounts Direction from the Scottish Funding Council require colleges to include a governance statement within their financial statements. The statement for Aberdeen College confirmed that in the opinion of the Board of Management, the college complied with the Code throughout 2011/12. We have reviewed the governance statement and have confirmed it is in line with the content required by the Accounts Direction and it reflects our understanding of the arrangements in place in Aberdeen College.

## Internal control

21. The auditor evaluates significant financial systems and associated internal controls for the purpose of giving an opinion on the financial statements and as part of the review of the adequacy of governance arrangements. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
22. Internal audit for the college is provided by Wylie and Bisset LLP. Generally, we seek to rely on the work of internal audit wherever possible and in respect of 2011/12, we concluded that reliance could be placed on their work. In their 2011/12 annual report, Wylie and Bisset LLP provided their opinion that based on the internal audit work undertaken during the year, the college operated adequate and effective risk management, control and governance processes.
23. Our testing combined with that of internal audit did not identify any material weaknesses in the accounting and internal control systems during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Risk Management

24. The college's risk management strategy, processes and risk register are kept under regular review by the Board of Management to ensure that risks are adequately managed by the college.

## Prevention and detection of fraud and irregularities

25. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
26. In terms of the arrangements in place, we noted for example, standing orders, financial regulations and a prevention of fraud policy. Combined these make up the standard suite of policies and procedures we would expect to find in an organisation with satisfactory arrangements in place. However, it is important that there is ongoing awareness and regular

refreshers of the content so that board members and staff remain alert to the potential for fraud or irregularity.

## Financial position

27. Aberdeen College and its Group reported a surplus of £1.4 million in respect of 2011/12 which represented 3.5% of income and held an income and expenditure balance of £22.5 million at 31 July 2012. With regard to the college's estates development strategy, the board anticipates that external support will be unlikely in the current climate and therefore aims to fund the next phase from its own resources. More widely, the sector faces a variety of financial challenges in the year ahead including a reduction in Scottish Government revenue funding, possible cost pressures arising from structural reform and a potential rise in the demand for college spaces.

## Performance

28. Planned structural reforms of the further education sector are expected to result in the number of colleges in Scotland falling from 37 to 23. The planned reforms have the potential to bring a more strategic approach to the management of the sector and more robust planning of the education provided in each region. Further work is required nationally to identify and articulate the costs and benefits of regionalisation and to improve the outcome agreements covering the sector's contribution to national objectives for education and learning.
29. Locally, Aberdeen College's Board of Management is working with the Board of Management of Banff and Buchan College to progress an options appraisal of the possible models for the development of further education in Aberdeen and Aberdeenshire.
30. Education Scotland undertook a review of Aberdeen College in 2011/12 and concluded that the college is led well and is enhancing the quality of its services for learners and other stakeholders. The report highlighted a range of strengths including sector leading and innovative practice. It should also be noted that the report did not identify any points for action.

## Acknowledgements

31. We would like to express our thanks to the staff of Aberdeen College for their help and assistance during the 2011/12 audit.