HENDERSON LOGGIE
Chartered Accountants

Cumbernauld College

Annual Audit Report for 2011/12 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2011/02

Draft Issued: 21 November 2012
8 March 2013
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HENDERSON LOGGIE

Notice: About this report

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

This report is for the benefit of only Cumbernauld College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes a valuation or legal advice.

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

This report is not suitable to be relied on by any party wishing to acquire rights against Henderson Loggie CA (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive Summary

Financial Statements

- On 1 March 2013, we issued an audit report with an unqualified opinion on the financial statements of the College for the year ended 31 July 2012 and on the regularity of the financial transactions reflected in those financial statements.

- There was only one potential audit adjustment identified during the audit process with a net impact on the surplus of £0.029 million increase. Following discussion with management it was agreed not to make this adjustment.

- A number of other minor disclosure and clarification adjustments were made to the financial statements to ensure Statement of Recommended Practice (SORP) and Accounts Direction compliance and improve the overall presentation of the financial statements.

- The College's position is a surplus for the year of £0.209 million (2010/11 – surplus £0.152 million), and an Income and Expenditure Account balance of £2.191 million (excluding the pension reserve) at 31 July 2012 (31 July 2011 - £2.027 million).

- The College has exceeded its total WSUMs target for 2011/12 by 1.7% (2010/11 – 0.0%).

- A new agreement was reached with the Clydesdale Bank in relation to the loan covenants resolving the breach reported last year.

Corporate Governance

- The College's Corporate Governance Statement confirms that the College complies with all of the provisions of the 2010 UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2012.

- We identified no significant control weaknesses during our audit. This is consistent with the reports of the internal auditor Wylie & Bisset LLP. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively.

- The College has an on-going process for identifying, evaluating and managing its significant risks.

Performance

- The College management and committee structure includes robust mechanisms to monitor and manage financial and non-financial performance. This appears to work well in practice.

Outlook

- In January 2013 Cumbernauld and Motherwell colleges announced merger plans and invited the other Lanarkshire colleges to join them, which neither has to date. Work is currently underway to take the merger proposal forward.

- The College will have a significant amount of work to undertake during the early part of 2013 in order to be ready for a merger in Autumn 2013, and to explore and agree what the regional arrangements will be between the new merged College and the other two colleges in the Federation within the region.

- The funding position will remain challenging going forward

Background

1. 2011/12 was the first year of our five year appointment as external auditors of Cumbernauld College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by International Standard on Auditing (ISA) (UK and Ireland) 260: Communication of Audit Matters with Those Charged with Governance.

2. The audit framework is outlined in our Strategic Planning Memorandum and 2011/12 Annual Audit Plan issued on 20 August 2012 and considered and approved by the Audit Committee on 13 September 2012. The scope of the audit was to:

   - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;

   - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and

   - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include;

   - compliance with legislation and financial regulations;

   - fixed assets transactions, including consideration of any impairment, revaluation of land and buildings and the potential impact on the financial statements; the estates development strategy implementation; on-going estate improvements and maintenance; and compliance with relevant financial reporting standards;

   - recoverability of debtors;

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

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

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

Basis of Information

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

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

6. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

Acknowledgement

7. Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.

Audit Opinion

8. On 1 March 2013, we issued an audit report with an unqualified opinion on the financial statements of the College for the year to 31 July 2012 and on the regularity of the financial transactions reflected in those financial statements. This was after the deadline of 31 December 2012 due to a delay while a technical issue around the date to which all College financial statements are drawn up was resolved (refer to paragraph 9 below). This issue was outwith the control of the College and Henderson Loggie, and centred on finding evidence to support the change of accounting date from 31 March, as prescribed in primary legislation, to 31 July.

9. The issue was considered at a national level between Audit Scotland and the Scottish Government. Following provision of further information to all college auditors the issue was resolved on 21 January through the acceptance by all auditors that sufficient evidence was available to show that an order to change the date had been made. This allows an unqualified opinion to be given.

10. We are required to undertake audit work from the Balance Sheet date up to the date of signing the accounts and this was undertaken in the period up to 1 March 2013. One post balance sheet event was identified which required changes to the Operating and Financial Review and notes to the accounts in relation with the proposed merger with Motherwell College announced on 11 January 2013. (refer to Outlook Section on page 12).

Audit Completion

11. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. Table 1 summarises the three key elements of the audit process.

Table 1: Key elements of the audit process

Completeness of draft financial statements A set of draft core financial statements was received in advance of the final audit visit although these did not include the Operating and Financial Review, Corporate Governance information and a number of notes to the financial statements. These have been received during the course of the audit. The draft financial statements were of a reasonable standard and required minimal presentational changes as part of the audit process.
Quality of supporting working papers In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. A full set of supporting working papers were provided in line with this list from the outset of the audit and were of a suitably high standard.
Response to audit queries We are pleased to note that all audit queries were dealt with in a timely manner.

Corporate Governance Statement

12. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

13. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process and report where the statement is not consistent with our knowledge of the body and report if the statement does not comply with SFC requirements.

14. The College's corporate governance statement for 2011/12 states the College complies with all of the provisions of the June 2010 UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2012.

15. From our audit work and our review of the College's statement we have no issues to report within our audit opinion.

Audit and Accounting Adjustments and Confirmation

16. In Table 2 we have provided detail of the potential audit adjustment identified during the audit process. Following discussions with management it was agreed not to make this adjustment. The overall impact of this unadjusted audit difference on the financial statements would be to increase the reported surplus for the year by £0.029 million, which is below our performance materiality.

Table 2: Audit potential adjustment – impact on Income & Expenditure Account

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
Accounting entries:				
Early retirement provision			29	
Staff costs		29		
Provision for unfunded early retirals already made				
	______	______	______	______
	0	29	29	0
	=====	=====	=====	=====

17. The adjustment noted in Table 2 relates to the early retirement provision for the SPF Scheme. This has been accounted for on the basis of the actuary report and valuation, as in prior years, which included an element for unfunded benefits amounting to £0.029 million. However, provision has already been made in the financial statements for unfunded early retirals and so this provision was effectively double counted. The effect of this adjustment would be to decrease the early retirement provision at 31 July 2012 and increase the surplus for the year by £0.029 million.

18. In line with the updated guidance issued by the SFC the 2010/11 figures were re-stated to take account of changes in the way HE childcare funds received by colleges are administered. These funds are now included in the main income and expenditure account as colleges have more discretion in the manner in which these funds are disbursed and these funds do not therefore meet the definition of agency funds. As the income matched the expenditure this had no impact on the reported surplus.

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

Confirmations and Representations

20. We confirm that as at 1 March 2013, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired. In accordance with auditing standards, we will obtain representations from the College on material issues.

Financial Position

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

22. Table 3 provides a summary of the College's planned and actual financial results, based on the formal returns submitted by the College to the Funding Council.

Table 3: Comparison of planned and actual financial results

	2010/11 Actual £000	2011/12 Planned £000	2011/12 Actual £000	2012/13 Planned £000
Financial outturn Surplus	152	174	209	1
Income and expenditure reserve (excluding pension reserve)	2,027	2,155	2,191	2,110
Cash balances	1,979	2,200	2,068	1,800

Source: Audited financial statements and Financial Forecast Return (FFR)

23. Overall, College income in 2011/12 has decreased by £0.658 million (6.1%) over 2010/11 to £10.081 million.

24. Critical to achieving the surplus in both years has been the staff cost savings and one-off SFC grants, including economic downturn/ESF funding. This additional funding has been confirmed for 2012/13 which together with continuing staff cost savings should maintain a surplus and sustain the income and expenditure reserve balance.

2011/12 SUMs Outturn

25. The College's outturn against its 2011/12 WSUMs target is shown in table 4.

Table 4: 2010/11 SUMs outturn

	2009/10	2010/11	2011/12
WSUMs target (including ESF target)	35,690	36,229	34,644
WSUMs actual	36,504	36,240	35,244
Excess	814	11	600

Source: Audited SUMs returns

26. The audit of the SUMs return for 2011/12 was carried out by Wylie & Bisset LLP who concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

27. The 2012/13 WSUMs target has been revised downward to 30,467 as a result of the funding position notified by the SFC in February 2012. In addition to this core target the College will receive additional Economic Downturn monies to fund a further 1,453 WSUMs and its agreed share of the Regional allocation is 2602 WSUMs (including efficiency WSUMs of 602 being unfunded) giving a total target for 2012/13 of 34,522 WSUMs.

FRS 17 Retirement Benefits

28. In 2011/12 the College accounted for its participation in the local government pension scheme as a defined benefit scheme. This is consistent with the accounting treatment adopted in previous years.

29. The FRS 17 retirement benefit provision was accounted for on the basis of the actuary report and valuation which included unfunded liabilities amounting to £0.029 million. However, provision is already made in the financial statements for unfunded early retirals and so was effectively double counted. The effect of this adjustment would be to decrease the provision at 31 July 2012 and increase the surplus for the year by £0.029 million.

Provisions

30. The College has a provision in its balance sheet for £0.431 million (31/07/11 - £0.410 million) relating to pension costs from early retirements awarded to former employees. The College's approach to the valuation of the provision is to apply SFC actuarial tables on a consistent basis. The SFC issued guidance for the use of a net interest rate of 1.5% (2010/11 – 2.0%) which has been used by the College for 2011/12. We concluded that subject to the potential adjustment advised in the above paragraph the provision has been correctly calculated, included and disclosed in the financial statements.

Capital Income and Expenditure

31. The College purchased tangible fixed assets with a value of £0.349 million in the year (2010/11 - £0.425 million) relating to property, plant and equipment. These have been funded from SFC formula capital funding. Deferred capital grants have been correctly treated in line with relevant fixed assets.

32. The College's land and buildings were revalued at 31 July 2012 by an external firm of Chartered Surveyors. The overall gain on revaluation of £1.928 million increased the overall value of these assets to £13,750 million and has been properly accounted for and disclosed in the financial statements.

33. Component accounting would be applicable for the College's properties but has not been applied. This was discussed with College management and it has been accepted that, particularly with the corresponding release of deferred capital grants, it would not give rise to a material difference in the depreciation charge to the Income and Expenditure Account. This should be considered further for the proposed federation of Lanarkshire Colleges in due course.

Bank Loan Covenant

34. Last year the previous external auditors reported on a breach of covenants that had been reported to them in respect of the Clydesdale Bank Loan. Since then negotiations have taken place to revise the terms of the agreement. Agreement was reached with the Bank on 26 June 2012 when a new agreement was signed. The College is no longer in breach of the original covenants as the total reserves (excluding the pension reserve) of £4.244 million exceeded the balance of £2.15 million stipulated as at 31 July 2012. This is mainly due to the revaluation gain of £1.928 million increasing the Revaluation Reserve balance to £2.053 million at the year-end - refer to paragraph 32 above.

Corporate Governance

35. The College is responsible for ensuring that governance arrangements follow the three fundamental principles of openness, integrity and accountability and that these arrangements are in place to ensure the proper conduct of its affairs. Mechanisms to monitor the adequacy and effectiveness of these arrangements should also be in place.

36. Our responsibility, as noted in the Code of Audit Practice, is to review and report on audited bodies' corporate governance arrangements as they relate to:

- Bodies' reviews of corporate governance and 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
- The financial position of audited bodies

37. Comments on the financial position and the College's Corporate Governance Statement are covered in the Financial Statement section of this report. The Corporate Governance Statement does not identify any significant areas for improvement.

38. We have considered the College's governance arrangements through formal review of documents and procedures and informal observation of the operation of Committee arrangements and the relationships between Board members and staff. In particular we have considered the College corporate governance arrangements for risk management and reporting to Committees. We did not identify any areas of concern regarding the College governance arrangements.

Systems of Internal Control

Control Environment

39. No material weaknesses in the accounting and internal control systems were identified during the 2011/12 financial statements audit which would 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.

40. Following our interim visit in July, and the subsequent testing we performed during the year-end audit to update our findings, we concluded that in general the key controls for the main financial systems tested were in place and operating as expected. We also followed up the recommendations made by the previous external auditors in their Annual Report last year and are satisfied that they have been implemented, where appropriate. No significant weaknesses or issues were found that would impact adversely on the accounts or our year-end audit.

Internal Audit

41. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Wylie & Bisset LLP provided internal audit services to the College in 2011/12. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate. We have also considered the adequacy of the provision and are content that the audit service is of good quality.

42. The annual internal audit report for 2011/12, issued in September 2012, concluded that the controls reviewed were strong and did not identify any issues that affect our audit conclusions.

Fraud and Irregularity, Standards and Conduct, and Prevention and Detection of Corruption

43. During 2011/12 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

44. The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations, Anti-Fraud & Anti-Corruption Policy, and a Raising Matters of Concern policy. These documents are reviewed and updated regularly.

45. No frauds were identified during 2011/12 or in the period since 31 July 2012 to the date of this report.

46. The College has the following policies and procedures in place in relation to standards of conduct and prevention and detection of corruption. These are reviewed and updated regularly.

- Code of Conduct
- Register of Interests
- Whistleblowing Policy
- Fraud and Corruption Policy

47. The College's Code of Conduct demonstrates that there are appropriate procedures in place following on from the implementation of the Bribery Act as of 1 July 2011

Introduction

48. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

49. No mandatory performance audit studies were identified by Audit Scotland for the College during 2011/12. Audit Scotland's planning guidance identified optional follow-up work on audited bodies' response to *Scotland's public finances – addressing the challenges*, which was published in August 2011; and carrying out Audit Scotland's focused follow-up on *The Role of Boards* report using key audit questions issued by its Performance Audit Group. Neither follow-up was undertaken formally, however we have not identified any additional actions in these areas that the College needs to take.

National Performance Reports

50. Audit Scotland published *Learning lessons of public body mergers – Review of recent mergers* in June 2012. This considered the merger processes that formed four new bodies between 2008 and 2011. The key messages and recommendations from this report will be relevant for the sector in taking forward the Government's regionalisation agenda. This is discussed further in the Outlook Section.

51. The other main report relevant to the College is *Scotland's Colleges – current finances, future challenges* issued in October 2012. The report makes recommendations for the Scottish Government, the SFC, and existing colleges and proposed regional boards. In particular the report recommends that 'existing colleges and proposed regional boards should:

- ensure that strategic planning for course provision in their areas responds to the national objectives and priorities for post-16 education, and also reflects the needs of local employers and students, and the views of community planning partners
- ensure that planning for course provision is based on robust financial and other resource plans
- learn from the experience of previous college mergers and other sources, such as the SFC's guidance on mergers and the Audit Scotland report *Learning the lessons of public body mergers*, to ensure effective management of their own mergers
- explore opportunities to reduce their costs through economies of scale, joint working and better partnership working. Colleges should develop clear assessments of the workforce skills and attributes needed in future to inform their strategies and procedures for staff changes and reductions.'

52. The College is already acting on and considering a number of these actions. It is clear from discussion with management and a review of information about the regionalisation process that further actions that address these recommendations will be undertaken as the development of the Lanarkshire Federation progresses.

College Arrangements

53. Audit Scotland's national performance reports are considered by the Senior Management Team (SMT) and where appropriate the Secretary to the Board will update the Board or appropriate committee where the content and recommendations are relevant to the College.

54. Arrangements for financial and non-financial management are well established in the College, through the operation of the SMT and the Board and its various Committees.

55. The College's Board of Management's Terms of Reference and Code of Conduct record the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. These key documents are regularly reviewed. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner.

Risk Management

56. The College has an on-going process for identifying, evaluating and managing its significant risks. It has a Risk Management Policy and risk management procedures that are actively monitored and reported on by the Risk Management Group who report to the SMT and to each meeting of the Audit Committee and thereafter to the Board of Management. We noted that there are clear links drawn between the key risks in the register and the College's objectives set out Strategic Plan.

2012/13 and Beyond

57. The Scottish Government's college regionalisation plans are well underway in the sector. Regional Outcome Agreements with the SFC have been finalised for AY 2012/13 and the regional allocation of funding is planned for 2013/14.

58. Cumbernauld College is part of the Lanarkshire Region, along with Coatbridge, Motherwell, and South Lanarkshire Colleges.

59. In February 2012 a federation model of working across three of the colleges in the region, including Cumbernauld College was proposed. The proposed federation then expanded during 2012 to include all four colleges in the Lanarkshire region.

60. Action taken by November 2012 included the publication of a Federation Agreement, a 2013-2015 Strategic Action Plan for the Federation and establishment of a Principals' Forum, Regional Outcome Agreement Group, Regional Monitoring and Review Team and a range of working groups. 'Enabling Funding' was approved by the SFC and a Project Manager appointed to commence in mid December 2012.

61. The publication of the ***Post-16 Education (Scotland) Bill*** in November 2012 details the planned legislative change which will direct the regionalisation of Scotland's college sector. The Bill describes the creation of a new fundable body, governed by a regional board, with the four current colleges remaining as individual institutions but with closer joint working to achieve integration of planning; a synergistic approach to delivering support services; optimisation of the delivery of education and training; and ensuring effective, economical and efficient management. Such activities are intended to deliver the long term cost savings which are necessary to maintain and improve levels of service whilst managing a substantial reduction in funding.

62. In January 2013 Cumbernauld and Motherwell colleges announced merger plans and invited the other Lanarkshire colleges to join them. There has been significant discussion around this but to date neither Coatbridge nor South Lanarkshire has agreed to join a merger. Work has gone on between Motherwell and Cumbernauld to take the merger proposal forward.

63. The College will have a significant amount of work to undertake during the early part of 2013 in order to be ready for a merger in Autumn 2013, and to explore and agree what the regional arrangements will be between the new merged College and the other two colleges in the Federation within the region.

64. The Scottish Funding Council issued a circular in February 2012 on the indicative college sector financial decisions for 2012-13 and provided indicative allocations for each region. Every college's base teaching grant has been reduced by 8.4%. Student support funding and capital maintenance allocations are to be maintained at the 2011/12 baseline level. The College's indicative allocation for teaching grant for 2012/13 is £5.692 million. As detailed at paragraph 27 the College has also received additional funds to deliver 2602 WSUMs as part of the agreed Regional split in 2012/13.

65. A draft budget was issued by the Scottish Government on 2 October 2012 which indicated further significant reductions in funding for both 2013/14 and 2014/15. These were partially reversed when, in February 2013 the Cabinet Secretary announced an additional £10 million of college sector funding for 2013/14, and that the 2014/15 budget would equal the revised 2013/14 budget, an increase of £51 million over that previously announced. The SFC will be involved in deciding how this additional £61 million will be spent within the sector Allocations of additional funding may be ring-fenced for specific purposes in which case spending will need careful monitoring to ensure it meets any mandatory criteria.

Appendix 1
Audited Bodies' Responsibilities

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Extracts from the Audit Scotland Code of Audit Practice

The Scottish ministers, elected members, governing bodies, boards, accountable officers, managers and officials have primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with integrity and spent appropriately. Public bodies and those responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

Financial statements
Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (e.g. the Financial Reporting Manual or an Accounting Code of Practice)
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Many audited bodies publish other information, such as an annual report, alongside the financial statements.

Audited bodies should prepare financial statements in accordance with statutory timescales or in good time to allow audits to be completed by any dates specified by sponsoring directorates or other bodies (e.g. the relevant Scottish Government Health Directorate for NHS bodies). Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

Corporate governance arrangements
The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer

Through its chief executive or accountable officer, 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.

Systems of internal control
Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls.

They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Rigorous self-evaluation should be a central part of audited bodies' performance management to support continuous improvement

Appendix 1
Audited Bodies' Responsibilities

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Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity.

This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers
- promoting appropriate values and standards
- developing, promoting and monitoring compliance with standing orders and financial instructions

Financial position of audited bodies

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and future use
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

The Scottish Public Finance Manual explains that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value is defined as the continuous improvement in the performance of functions. This includes having regard to the concepts of economy, efficiency and effectiveness and the need to meet equal opportunity requirements, and contributing to the achievement of sustainable development.

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.