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Jewel & Esk College

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

External Audit Report No: 2012/02

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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 Jewel & Esk College (and subsequently Edinburgh 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 28 September 2012 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.

- Since that date an issue has come to light that is outwith the control of the College and Henderson Loggie which may impact on the audit opinion for Edinburgh College in 2012/13. Audit Scotland has advised us that legislation amending the date at which College financial statements are drawn up cannot be located. Two options are being considered; a modified audit opinion in relation to the financial statements being prepared in accordance with the legislation or the Scottish Government preparing an Order to change the year-end to July retrospectively.

- A number of audit and accounting adjustments were made to the financial statements. One adjustment was for a material amount although none had a material effect on the Income and Expenditure Account. The net impact of the adjustments was to increase the surplus and net assets by £0.038 million.

- A number of disclosure and clarification adjustments were made to the financial statements to ensure Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education and Scottish Funding Council (SFC) Accounts Direction compliance and improve the overall presentation of the financial statements.

- The College has shown a surplus for the year of £0.593 million (2010/11 – surplus £0.723 million) and an Income and Expenditure Account Reserve balance of £13.942 million at 31 July 2012 (31/07/11 – £13.457 million). This includes expenditure, net of SFC grant income, of £0.349 million for voluntary severance and £0.034 million for merger activities.

- The College has exceeded its Weighted SUMs target for 2011/12 by 1.1% (2010/11 – 0.3%).

- The College's pension liability increased by £2.866 million in 2011/12 to £4.966 million which was largely due to changes in key actuarial assumptions relating to discount rates and expected future asset returns.

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. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively although a small number of minor weaknesses were identified during our interim testing and discussed with management at the close of our fieldwork.

- We did not identify any matters of concern relating to the College's corporate governance arrangements regarding the prevention and detection of fraud, or standards of conduct and the prevention and detection of corruption.

Performance

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

Outlook

- As part of the regionalisation agenda the Scottish Government included Jewel & Esk College within the Edinburgh regional grouping along with Stevenson College Edinburgh (SCE) and Edinburgh's Telford College (ETC). In the latter part of 2011, building on longstanding collaborative relationships with the other Edinburgh colleges, Jewel & Esk agreed to merge with SCE and ETC. The three colleges entered into a merger process with the aim of becoming a single college for the Edinburgh region by the end of 2012. Following the completion of due diligence the colleges merged on 1 October 2012.

- It is recognised that much time was devoted during 2011/12 by Board members and management of Jewel & Esk College, together with colleagues from the other Edinburgh colleges, in preparing for the merger. Audit Scotland published *Learning the lessons of public body mergers – Review of recent mergers* in June 2012. The key messages and recommendations from this report will be relevant for Edinburgh College in taking forward the regionalisation agenda.

- SFC funding (Grant-in-Aid and Fee Waiver) for 2012/13 was set at £10.415 million, a reduction of £1.137 million on 2011/12. SCE and ETC experienced similar percentage reductions. The draft Scottish Government budget published in October 2012 indicates further significant reductions in College funding for 2013/14 and 2014/15. The voluntary severances undertaken in 2011/12 will help to further reduce future pay costs and assist Edinburgh College in coping with this reduction however robust budget setting and monitoring arrangements will be essential in helping the new College to achieve sustainability through this period.

Background

1. 2011/12 was the first year of our appointment as external auditors of Jewel & Esk 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 1 May 2012 and considered and approved by the Audit Committee on 8 May 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;
   - estates issues including retentions, utility costs and litigation in relation to a previous land sale;
   - recoverability of debtors;
   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;
   - non-achievement of planned budget resulting in a deterioration of the financial position;
   - accounting treatment of Lennartz VAT and the VAT repayment received in the year;
   - accounting treatment of designated reserves;
   - 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 28 September 2012 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.

9. Since that date an issue has come to light that is outwith the control of the College and Henderson Loggie which may impact on the audit opinion for Edinburgh College in 2012/13. Audit Scotland has advised us that legislation amending the date at which College financial statements are drawn up cannot be located. This is currently being pursued at national level between Audit Scotland and the Scottish Government. Two options are being considered; a modified audit opinion in relation to the financial statements being prepared in accordance with the legislation or the Scottish Government preparing an Order to change the year-end to July retrospectively. If a modified audit opinion is issued this will be a purely technical qualification which will apply to all colleges.

Audit Completion

10. 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 financial statements was received prior to the final audit visit. These were of a high 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

11. 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.

12. 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.

13. 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.

14. 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

15. Following our audit we issued a draft ISA 260 report to those charged with governance and discussed this at the Audit Committee meeting on 24 September 2012. The report explained the 11 agreed audit and accounting adjustments to the financial statements made by management following the audit process. One adjustment was for a material amount (refer paragraph 16 below) although none had a material effect on the Income and Expenditure Account. The net impact of the adjustments was to increase the surplus and net assets by £0.038 million. One further potential adjustment, which is not material, was not processed. The overall impact of this unadjusted audit difference on the financial statements would be to increase the reported surplus for the year by £0.057 million.

16. The financial statements received for audit included a provision of £3.228 million in the balance sheet at 31 July 2012 (31/07/11 – £3.818 million) in relation to VAT repayable to HM Revenue and Customs under the Lennartz mechanism that fell due after more than one year. The amount falling due within one year was included in Accruals. To ensure consistency with the other Edinburgh colleges in advance of the merger the provision was reclassified as a Creditor falling due after more than one year. This had no impact on the reported surplus for the year.

17. 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

18. We confirm that as at the date of this report, 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.

19. In accordance with auditing standards, we obtained representations from the College on material issues.

Financial Position

20. 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.'

21. 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
Financial outturn Surplus	723	281	593
Income and expenditure reserves (excluding pension reserve)	13,457 (Restated)	13,820	13,942
Cash balances	4,767	2,620	4,717

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

Financial Position (Continued)

22. Overall, College income in 2011/12 increased by £0.240 million (1.2%) over 2010/11 to £19.536 million. The major movements in income were a significant reduction in SFC recurrent grant (£1.129 million), which was off-set by an increase in Other SFC grants (£1.093 million) and Other income (£0.329 million). Other SFC grants for 2011/12 includes £0.723 million of capital funding for debt servicing; funding of £0.702 million for a voluntary severance scheme; capital formula funds of £0.251 million; European Strategic Funds of £0.218 million; and merger transitional funds of £0.137 million. Other income includes a VAT refund of £0.274 million primarily relating to Lennartz.

23. Expenditure before exceptional merger costs (refer paragraph 24 below) has increased by £0.073 million (0.4%) from 2010/11 to £18.788 million. The following are the main reasons for movements:

- Staff costs decreased £0.516 million (4.8%) due to reduced staff levels as a result of previous years' severance schemes;
- the College ran a voluntary severance scheme in 2011/12 for which 26 staff were accepted with a total cost of £1.051 million (2010/11 – £0.833 million); and
- Other operating expenses increased by £0.367 million (7.7%) mainly relating to increased computing and irrecoverable VAT costs.

24. In addition exceptional merger expenditure of £0.171 million was incurred during 2011/12, mainly relating to consultant and information technology costs; and there was an exceptional gain on sale of a piece of land at the Milton Road Campus of £0.016 million.

2011/12 SUMs outturn

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

Table 4: 2011/12 Weighted SUMs outturn

	2010/11	2011/12
WSUMs target (including ESF WSUMs)	67,666	64,556
WSUMs actual	67,901	65,295
Excess	235	739

Source: Audited SUMs returns

26. The audit of the SUMs return for 2011/12 was carried out by Baker Tilly 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 Weighted SUMs target has been revised downward to 58,260 as a result of the funding position notified by the SFC in February 2012 and discussed further in paragraph 63.

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 pension liability increased by £2.866 million in 2011/12 to £4.966 million which was largely due to changes in key actuarial assumptions relating to discount rates and expected future asset returns.

Financial Position (Continued)

Capital Income and Expenditure

30. The College's campus development programme was completed in 2008/09 however final snagging costs remain to be settled with the contractors. At 31 July 2012 the College has a retention accrual of £0.439 million in its balance sheet (31/07/11 – £0.673 million) which we confirmed was in agreement with the latest valuation certificate received from the contractor. Also, the College has not yet been invoiced for utility costs incurred during the campus development and has an accrual of £0.365 million for this in its balance sheet at 31 July 2012 (31/07/11 – £0.424 million). There has been no recent correspondence with the utility companies on this and representation was received from the College Board of Governors and management that this remained a liability at 31 July 2012.

31. The College is currently involved in an ongoing litigation action in the Court of Session against a third party in relation to advice provided during a previous land sale. The purchasing company entered administration with the second instalment of the purchase price outstanding which the College was unable to recover. A four-week proof is scheduled to commence in March 2013. The College has not made any adjustment in the financial statements for this contingent asset or made any disclosure by way of note. We concluded that this position was consistent with FRS 12 – Provisions, Contingent Liabilities and Contingent Assets.

32. FRS 15 – Tangible Fixed Assets and the SORP require that where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. The requirements of FRS 15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the assets are charged to the Income and Expenditure Account over the periods in which they are consumed. With the exception of some expenditure on window and roof replacement and professional fees, which are depreciated over 10 years, the College is currently depreciating buildings as single items over 50 years. It has been accepted that, due to the corresponding release of deferred capital grants, a change to component accounting would not give rise to a material difference in the depreciation charge to the Income and Expenditure Account in 2011/12. It is however recommended that this should be considered further for the new Edinburgh College (see recommendation **R1** Appendix II).

33. Consistent with previous years, the College has adopted the provisions of FRS 15 and has retained the land and buildings valuations for the original Milton Road Campus buildings provided in the valuation undertaken as at 31 March 1993. We established that a 'best estimate' adjustment had been made to the Revaluation Reserve in previous years to take account of demolitions and the sale of land. Detailed records have not however been maintained to demonstrate that the balance on the Revaluation Reserve equals the difference between depreciated historical cost and depreciated revalued amount. This was discussed with the Director of Finance who confirmed that this would be addressed as part of the new Edinburgh College (see recommendation **R2** Appendix II).

Designated Reserves

34. At 31 July 2011 the College had Designated Reserves totalling £8.178 million in its balance sheet, primarily consisting of receipts from land sales to be released to the Income and Expenditure Account over the remaining economic life of the new buildings.

35. The SORP notes that there may be instances where institutions wish to designate elements of their income and expenditure account reserves to specific purposes. However, for the purposes of the SORP, such designations are considered to be an internal matter for each institution and therefore should not be disclosed in the primary statements or the notes to the accounts.

Financial Position (Continued)

Designated Reserves (Continued)

36. In previous years the external auditors agreed with management that given the size of the balance in question, this disclosure was required in order to provide the user of the financial statements with a true and fair view of the situation. However, we recommended in our 2011/12 Annual Audit Plan that the College considers revisiting this position, particularly to ensure consistency with the other Edinburgh colleges in advance of the merger. Following further consideration by management a prior period adjustment was made to transfer the balance on the Designated Reserves to the Income and Expenditure Account Reserve. This had no impact on the reported surplus for either 2010/11 or 2011/12.

Jewel & Esk Valley Commercial Enterprises Limited (JEVCEL)

37. Following the conclusions of a VAT review, it was decided to deliver all activity previously through the College's subsidiary company, JEVCEL, from within the core curriculum delivery plan and the company did not trade during 2011/12. The company is currently in the process of being dissolved.

Corporate Governance

38. The College is responsible for ensuring that governance arrangements follow the three fundamental principles of openness, integrity and accountability and that 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.

39. 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; and
- The financial position of audited bodies.

40. 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.

41. 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 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

42. 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.

43. A small number of minor weaknesses were identified during our interim testing and discussed with management at the close of our fieldwork. Additional testing at the year-end visit was included to compensate for these issues which mainly related to cash income checking and PECOS authorisation procedures. No further issues were noted in these areas.

Internal Audit

44. 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. Baker Tilley 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.

45. The annual internal audit report for 2011/12, issued in September 2012, did not identify any issues that affect our audit conclusions.

Fraud and irregularity, standards and conduct, and prevention and detection of corruption

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

47. The College has appropriate arrangements in place regarding the prevention and detection of fraud, including current versions of its Financial Regulations; Whistleblowing Policy and Procedures; Anti-Fraud Policy and Procedures; Business Conduct and Ethics Policy and Procedures; Code of Conduct for Board Governors; Code of Conduct for College Employees; and Treasury Management Policy. These documents have been reviewed and updated periodically.

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

49. The College has appropriate arrangements in place in relation to standards of conduct and prevention and detection of corruption, including an Anti-Corruption Policy and Procedures and Register of Board Members' Interests. These have been reviewed and updated regularly. At its meeting on 20 September 2011 the Board of Governors approved a Statement Against Bribery for inclusion in the Code of Conduct.

Introduction

50. 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.

51. No mandatory performance audit studies were identified by Audit Scotland for the College during 2010/11. 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 should be considered by Edinburgh College.

National Performance Reports

52. Audit Scotland published *Learning the 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 Edinburgh College in taking forward the Scottish Government's regionalisation agenda. This is discussed further in the Outlook section of this report.

53. 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.'

54. These actions will be for Edinburgh College to take forward during 2012/13.

College arrangements

55. Audit Scotland reports are reviewed by College management upon receipt and thereafter considered by the Board and Board committees where appropriate. The October 2012 report on current finances and future challenges was considered by the Board of Management of Edinburgh College at its meeting on 22 October 2012.

56. Arrangements for financial and non-financial management are well established in the College, through the operation of the Senior Management Team and the Board and its various committees. The Constitution and Articles of Governance of Jewel & Esk College clearly records the performance management aspects of the Board and each committee, and where appropriate, their responsibility to take action to address issues in performance. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner.

2012/13 and beyond

57. The Scottish Government's College regionalisation plans are well underway in the sector although various regions are at differing stages in the merger process. Regional Outcome Agreements with the SFC have been finalised for 2012/13 and the regional allocation of funding is planned for 2013/14.

58. The Scottish Government introduced The Post-16 Education (Scotland) Bill on 27 November 2012. The Bill, currently at Stage 1 of its progress, covers a number of areas, including college regionalisation and the constitution, duties and operation of Regional Boards.

59. Jewel & Esk College was included within the Edinburgh regional grouping along with Stevenson College Edinburgh (SCE) and Edinburgh's Telford College (ETC). In the latter part of 2011, building on longstanding collaborative relationships with the other Edinburgh colleges, Jewel & Esk agreed to merge with SCE and ETC. The three colleges entered into a merger process with the aim of becoming a single college for the Edinburgh region by the end of 2012. Following the completion of due diligence the colleges merged on 1 October 2012. The new college is known as Edinburgh College although legally it continues to trade as Edinburgh's Telford College. It will be legally renamed Edinburgh College in due course.

60. The key recommendations from Audit Scotland's report *Learning the lessons of public body mergers* were that merging bodies should:

- ensure merger plans extend beyond the start date of the new body – to ensure business as usual continues and to plan for subsequent organisational development that is sufficient, effective and focused on delivering improvements;
- schedule a post-implementation review within six months of the start date of the new body to identify lessons learned, monitor progress in meeting the strategic aims and objectives, and assess if the merger is on course to deliver the long-term benefits. The results of the review should be reported to the Scottish Government to support wider learning and sharing of lessons;
- develop and adopt a corporate plan for the new organisation within 12 months of its start date. The plan should provide a strong, strategic focus on the purpose and benefits of establishing the new organisation and the further organisational change and development that is required to secure these benefits;
- develop performance reporting systems and key performance indicators that measure the benefits expected from the merged body and aim to publicly report performance information no more than two years after the start date of the new body; and
- collect views from users, staff and stakeholders on performance and use this to measure improvement and influence service delivery.

61. It is recognised that much time was devoted during 2011/12 by Board members and management of Jewel & Esk College, together with colleagues from the other Edinburgh colleges, in preparing for the merger. The merger process was overseen by the Partnership Board, with day-to-day management delegated to a Merger Executive Board which managed the activities of work streams set up to take forward specific projects. The Partnership Board evolved into a Shadow Board, which became the Edinburgh College Board on the vesting date.

62. The merger proposal document submitted to the Scottish Government in April 2012 included the vision for Edinburgh College and seven key principles that will guide the new College and help focus areas for action and investment. This document helps address the first bullet point at paragraph 60 above. Action in relation to the other bullet points will require to be considered or completed in 2012/13.

2012/13 and beyond (Continued)

63. Revenue funding (Grant-in-Aid and Fee Waiver) for 2012/13 for Jewel & Esk College was set at £10.415 million, a reduction of £1.137 million on 2011/12. SCE and ETC experienced similar percentage reductions. The draft Scottish Government budget published in October 2012 indicates further significant reductions in College funding for 2013/14 and 2014/15. The voluntary severances undertaken in 2011/12 will help to further reduce future pay costs and assist Edinburgh College in coping with this reduction however robust budget setting and monitoring arrangements will be essential in helping the new College to achieve sustainability through this period.

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 (eg, 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. 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 I
Audited Bodies' Responsibilities

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.

Appendix II
2011/12 Annual Audit Report Recommendations

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
32	**Financial Position** **Capital Income and Expenditure** **R1** For tangible fixed assets comprising two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life.	C	Normal practice is to establish the economic lives of assets and to account for these separately. A review of capital assets and associated depreciation will be undertaken as part of the consolidated accounts.	Y	Finance Manager	Review by 30 April 2013
33	**R2** For revalued fixed assets, records should be maintained of both the depreciated historical cost and depreciated revalued amount with the difference between the two reconciling to the balance on the Revaluation Reserve.	C	There is a lack of detailed information relating to the historical assets associated with the revaluation reserve. However, this reserve will be reviewed as part of the Edinburgh College merger.	Y	Finance Manager	31 July 2013 Reviewed as part of merger

Grade

A	Fundamental issues which require the consideration of the Board of Governors or one of its committees.
B	Significant matters which the appropriate members of the Senior Management Team can resolve.
C	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.