HENDERSON LOGGIE
Chartered Accountants

Kilmarnock College

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

External Audit Report No: 2012/04

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Contents

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 Kilmarnock 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 February 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. 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.

- A number of audit and accounting adjustments were made to the financial statements; these made no change to the 2011/12 surplus reported in the draft financial statements. The 2010/11 figures were re-stated to take account of a correction to the treatment of the revaluation of the Saltcoats property during that year.

- A number of 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 £0.639 million (2010/11 – deficit £0.016 million restated), and an income and expenditure account balance of £3.028 million at 31 July 2012 (31 July 2011 - £1.604 million restated). Both years included significant exceptional expenditure in arriving at this position.

- The College has exceeded its WSUMs target for 2011/12 by 2.7% (2010/11 – 2.4%).

- The new campus will now be funded through the Scottish Futures Trust using the Non Profit Distribution (NPD) model. As a result previously capitalised costs of £0.560 million, and in-year expenditure of £0.443 million, relating to the new campus have been shown as exceptional costs in the Income and Expenditure account.

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 BDO 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 clearly includes robust mechanisms to monitor and manage financial and non-financial performance. This appears to work well in practice.

Outlook

- Although there is still a large amount of work to be done, action taken to date by the College and the Ayrshire Partnership Board appears to be on track to deliver merger proposals, and ultimately the new merged Ayrshire regional college, within the envisaged timeframe. The planned vesting date is 1 August 2013.

- The funding position will remain challenging going forward. The voluntary severances undertaken in 2011/12 will help to further reduce future pay costs and assist the College and, from 1 August 2013, the new regional college in coping with the funding reductions however robust budget setting and monitoring arrangements will be essential in helping to achieve sustainability.

Introduction

Background

1. 2011/12 was the first year of our five year appointment as external auditors of Kilmarnock 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 17 April 2012 and considered and approved by the Audit Committee on 19 June 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 February 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 2013 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. We are required to undertake audit work from the Balance Sheet date up to the date of signing the financial statements and this was undertaken in the period up to 1 February 2013. No post balance sheet events were identified that required adjustment to be made to the financial statements or disclosure in a note thereto.

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 in advance of the final audit visit although these did not include the Operating and Financial Review, Corporate Governance information and a small number of notes to the financial statements. These have been received during the course of the audit. The draft financial statements 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. We are not required to provide an opinion on the College's systems of internal controls.

Corporate Governance Statement (Continued)

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. Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.

Audit and Accounting Adjustments and Confirmation

15. In Table 2 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process. Explanations for material adjustments are given at paragraph 17 to 20 below. A further six potential adjustments were not processed. The overall impact of these unadjusted audit differences on the financial statements would be to increase the reported surplus for the year by £0.005 million, which is a trivial amount. We have accepted management's decision not to make these adjustments.

Table 2: Audit and accounting adjustments

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
***Adjusting entries**:*				
Other operating expenses	69			
SFC Income		69		
HE Childcare expenditure recognised in year				
Restricted reserve			166	
I&E Reserve				166
Reversal of transfer to Restricted Reserve of interest received on proceeds from sale of Irvine				
Prior year adjustment				
I&E Reserve opening balance			315	
Revaluation reserve opening balance				315
Correction of application of revaluation of Saltcoats property in prior year. See note below for effect on restated 2010/11 position.				
***Reclassification entries**:*				
Exceptional costs – restructuring costs	48			
Other operating expenses		48		
Reallocation of voluntary severance payments mis-coded				
Exceptional costs – new build campus	443			
Other operating expenses		443		
Reallocation of costs relating to new campus				
	560	560	481	481
	=====	=====	=====	=====

Audit and Accounting Adjustments and Confirmation (Continued)

16. 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.

Material adjustments

17. Three of the accounting adjustments noted in Table 2 were material in value.

18. International Auditing Standards require auditors to consider opening balances when they take on a new appointment. As part of our work in this area we identified an error in the accounting treatment of the revaluation of fixed assets in 2010/11. The Saltcoats property was purchased during 2010/11 for £0.675 million and valued at 31 July 2011 at £0.360 million, a reduction of £0.315 million. As there was no previous amount in the Revaluation Reserve to off-set against this reduction, it should have been taken directly to the Income and Expenditure Account rather than included in the Revaluation Reserve. The 2010/11 financial statements have been restated and the impact on the Income and Expenditure Account is to take the previous operating surplus of £0.299 million to an operating deficit of £0.016 million. In the Balance Sheet, the net asset position is unchanged, with a movement between reserves resulting in an increase in the Revaluation Reserve and a reduction in the Income and Expenditure Account Reserve.

19. The two other material adjustments related to:

- £0.166 million of interest calculated as being received on the proceeds from the sale of property in Irvine in previous years had been transferred in 2011/12 to the Restricted Reserve from the Income and Expenditure Account Reserve. This transfer did not comply with guidance on Restricted Reserves contained within the Scottish Funding Council (SFC) Accounts Direction guidance notes and the SORP and an adjustment has been made to move it back to the Income and Expenditure Account Reserve; and
- a reclassification of £0.443 million relating to expenditure incurred in connection with the new build campus project. This had been included within other operating expenditure but is now disclosed as an exceptional item given the nature of this expenditure.

20. The effect of these adjustments on the College's net asset position and the reported surplus for the year is £nil.

Confirmations and Representations

21. 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.

22. In accordance with auditing standards, we will obtain representations from the College on material issues.

Financial Position

23. 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.

24. 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 (restated) Actual £000	2011/12 Planned £000	2011/12 Actual £000	2012/13 Planned £000
Financial outturn Surplus	(16)	168	639	11
Income and expenditure reserve (excluding pension reserve)	1,604	1,246	3,028	3,184
Cash balances	3,468	4,538	4,167	4,862

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

25. Overall, College income in 2011/12 has decreased by £0.689 million (4.7%) over 2010/11 to £13.997 million.

26. The 2011/12 surplus and 2010/11 deficit were arrived at following charges for exceptional items which means that the sustainable underlying position in both years is a healthy surplus. Once one-off SFC grants have been taken into account the underlying surplus in each year is £1.387 million and £1.093 million respectively.

2011/12 SUMs outturn

27. 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)	53,180	55,349	52,669
WSUMs actual	54,411	56,663	54,110
Excess	1,231	1,314	1,441

Source: Audited SUMs returns

28. As the College’s external auditor we carried out the audit of the SUMs returns for 2011/12. We 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 our testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

29. The 2012/13 WSUMs target was revised downwards to 46,659 as a result of the funding position notified by the SFC in February 2012. The College has since agreed a further allocation from the SFC of 4,762 WSUMs for 2012/13 in relation to regional growth requirements. This is discussed further in paragraph 57.

FRS 17 Retirement Benefits

30. 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.

Capital Income and Expenditure

31. During the year the method by which the College's new campus will be financed changed, resulting in a change in accounting treatment for the expenditure incurred to date on the project. The project will now be funded through the Scottish Futures Trust using the Non Profit Distribution (NPD) model (estimated value circa £50 million). Under current UK Generally Accepted Accounting Practice (UK GAAP) the property will not appear on the College Balance Sheet. As a result costs of £0.560 million relating to the new campus, which were capitalised in 2010/11, have been transferred to the Income and Expenditure Account in 2011/12 as an exceptional asset write down. A further £0.443 million of costs incurred on the new campus in 2011/12 have also been shown as an exceptional item in the Income and Expenditure Account.

32. Assets were catalogued during the year for inclusion in a new asset register system, Parago. This exercise identified a number of assets that were old and fully written down and resulted in an adjustment to reduce cost and aggregate depreciation by £0.952 million each. Future reviews to identify this type of adjustment on an on-going basis will be included in our de-brief discussions with management. Work is ongoing to match assets on the register to physical assets as a number (2.5%) remain unmatched. This mainly relates to chairs and other items of furniture.

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 new Ayrshire College in due course.

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Corporate Governance

34. 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.

35. 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

36. 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.

37. 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 Governance Manual, governance arrangements for the new build campus project and 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

38. 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.

39. Following our interim visit in July 2012 we did not identify any significant control weaknesses and we do not intend to issue a separate management letter.

Internal Audit

40. 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. BDO 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.

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

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

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

43. 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.

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

45. The College has in place a College Governance Manual that includes the following appropriate procedures / policies in relation to standards of conduct and prevention and detection of corruption. These are reviewed and updated regularly with the latest review being October 2009.

- Code of Conduct for Board Members
- Register of Board Members' and Senior Staff Interests
- Procedures on Raising Matters of Concern
- Procedures for Handling & Investigating a Public Interest Disclosure.

46. The Bribery Act 2010 was considered by the College Board of Management in September 2011 and, following discussion with Union representatives, embedded in College policies and procedures.

Introduction

47. 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.

48. 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

49. 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.'

50. 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 Ayrshire regional college progresses.

College arrangements

51. Audit Scotland reports are reviewed by College management upon receipt and thereafter considered by the Board of Management and Board committees.

52. 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 College Governance Manual 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

53. 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.

54. 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.

55. Kilmarnock College is part of the Ayrshire Region along with Ayr College and the Kilwinning campus of James Watt College. The target vesting date for the new regional college for Ayrshire is 1 August 2013 and several actions have been taken to move towards this:

- The Kilmarnock Board has been actively involved in decision making around the proposed merger
- The Ayrshire Partnership Board was established early in 2012 comprising senior staff and Board members from all three colleges. It met for the first time in April 2012, and has met monthly since then
- A series of executive workstream groups, each with their remit specified in Terms of Reference, have been established to consider key areas such as Curriculum, Finance, ICT and Organisational development
- Comprehensive consultation documents were sent out to stakeholders in October 2012. The consultation process will run from 25 October to 14 December 2102
- A clear timetable of key actions has been identified during 2012 and 2013

56. Action taken to date appears to be on track to deliver merger proposals, and ultimately the merged college, within the envisaged timeframe.

57. Revenue funding (Grant-in-Aid and Fee Waiver) for 2012/13 for Kilmarnock College has been set at £8.879 million, a reduction of £0.969 million on 2011/12. This reduction has been partially offset by an allocation of £0.647 million of regional growth funding from SFC relating to 2012/13. 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. 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. The voluntary severances undertaken in 2011/12 will help to further reduce future pay costs and assist the College and, from 1 August 2013, the new regional college in coping with the funding reductions however robust budget setting and monitoring arrangements will be essential in helping to achieve sustainability through this period.

58. Following a detailed evaluation process, three bidders were selected to progress to the next stage of procurement for the design, build, finance and maintenance of the College's new campus in Kilmarnock. The procurement process will continue throughout 2012/13 with a Preferred Bidder expected to be announced in the summer of 2013. As previously noted in the Corporate Governance section of this report good governance arrangements have been put in place for the new campus project and the College's Board of Management will need to ensure that these are maintained.

Appendix I
Audited Bodies' Responsibilities

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.