

Moray College

Annual Report on the 2011/12 audit



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

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Summary	4
Key messages from the 2011/12 Audit.....	4
Introduction	4
Status of the Audit.....	4
Financial statements audit opinion & representations.....	5
Governance and internal control systems.....	6
Financial position	7
Performance.....	8
Acknowledgements	8

Summary

Key messages from the 2011/12 Audit

1. We have given an unqualified opinion on the financial statements of Moray College and on the regularity of the financial transactions reflected in those financial statements.
2. In autumn 2012, it came to light that there may be no legislative basis for colleges to use 31 July as their year end and therefore there was a possibility that a modified opinion would be required for all college accounts. Following discussion between the Assistant Auditor General, the Scottish Funding Council and Scottish Government colleagues, consensus was reached and consequently, an unqualified opinion was issued in January 2013.
3. We concluded that governance and internal controls were generally operating satisfactorily. In response to a loss incurred as a result of a fraudulent request for payment, the college acted promptly to investigate the matter and carried out refresher training for all staff concerned.
4. In 2011/12 the college reported a deficit of £416,000 representing -3.8% of income. Following a reduction in grant income, the college had opted to use reserves to balance the 2011/12 budget. On the whole, the deficit had therefore been a planned approach. A reserve balance of £627,000 was held at 31 July 2012 which will provide some cushion for the college. The outlook for the sector generally is one of continuing financial challenges arising from the reduction in Scottish Government funding and other factors.

Introduction

5. The purpose of this report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Audit Plan presented to the Audit Committee on 29 May 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. The Board of Management of Moray College is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Status of the Audit

7. Our work on the financial statements is now complete. The issues arising from the audit were considered by the Audit Committee on 13 November 2012.

Financial statements audit opinion & representations

8. We have given an unqualified opinion on the financial statements of Moray College for the year ended 31 July 2012 and on the regularity of the financial transactions reflected in those financial statements. The accounts were certified on 22 January 2013 which is beyond the normal deadline of 31 December for submission of the audited accounts to the Scottish Funding Council. The reason for the delay in respect of the 2011/12 accounts is explained in paragraphs 9 to 11.
9. Section 18(3) of the Further and Higher Education (Scotland) Act 1992 (the 1992 Act) requires the financial year to be to 31 March. Section 18(4) gives Scottish Ministers power to change that date by an Order. While a change in date took place in 2000, we were unable to locate the relevant Statutory Instrument which we had anticipated would have been required to enable the change to 31 July. In autumn 2012, we held a provisional view that there was no legislative basis for colleges to use 31 July as the year end and consequently, the likely options were a retrospective order or a modification to the audit report for the part of the audit opinion that stated that the accounts had been prepared in accordance with the 1992 Act.
10. Discussions to resolve the matter at a national level continued through to January 2013 between the Assistant Auditor General, the Scottish Funding Council and Scottish Government officials. Auditors were requested not to certify college accounts until a solution was identified. In the meantime, Moray College's Board of Management met as normal in December 2012 to consider and approve the audited accounts leaving the matter of the audit opinion to be resolved in due course.
11. Our consideration of the terms of the 1992 Act and the passage of time has made this issue quite complex. While the 1992 Act provides the power to change the date by an Order, the relevant provision is exempted from the more usual requirement for an Order to be in the form of a Statutory Instrument. While the actual Order has not been located, assurance was drawn from evidence of a clear intention to issue an Order and that it was acted upon in that colleges changed their accounting year end following the issue of an Accounts Direction. Having taken these matters into consideration in consultation with other college auditors, I was able to issue an unqualified opinion on 22 January 2013.
12. There were no errors identified during the audit of the financial statements which needed to be brought to board members' attention. The main issue raised during the audit related to the disclosure of expenditure in relation to the Moray Life Sciences Centre. The matter was purely presentational in nature and did not have a financial impact on the accounts.
13. As part of the completion of our audit we seek written assurances from the Principal on aspects of the accounts and judgements and estimates made. A letter of representation under International Standard of Auditing (ISA) 580 was provided to the Principal and this was signed and returned prior to the independent auditor's opinion being certified.

Governance and internal control systems

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

Audit Committee

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

Internal control

19. The auditor evaluates significant financial systems and associated internal controls for the purpose of giving an opinion on the financial statements and as part of the review of the adequacy of governance arrangements. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
20. Internal audit for the college is provided by Henderson Loggie. Generally, we seek to rely on the work of internal audit wherever possible and in respect of 2011/12, we concluded that reliance could be placed on their work. In their annual report for 2011/12, Henderson Loggie provided their opinion that based on the internal audit work undertaken during the year, the college operated adequate and effective internal control systems and had proper arrangements in place to promote and secure value for money. They did however draw attention to an incidence of fraud experienced by the college which is referred to in paragraph 24.

21. Our testing combined with that of internal audit did not identify any material weaknesses in the accounting and internal control systems during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Risk Management

22. The college's risk management strategy, policy and risk register are kept under regular review by the Audit Committee to ensure that risks are adequately managed by the college. We also noted the important links drawn between the Risk Register and the college's strategic plan.

Prevention and detection of fraud and irregularities

23. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
24. The Director of Finance informed us in July 2012 of a loss incurred by the college as a result of a fraudulent request for payment. The college acted promptly to investigate the matter internally and requested a further in-depth review by internal audit. Consequently, an improvement plan was prepared and actions are currently being implemented. In addition, refresher training was provided to all staff concerned. Overall, this was an effective response by the college.
25. In terms of the arrangements in place, we noted for example, standing orders, a scheme of delegation, a fraud policy and response plan and codes of conduct for board members and staff. Combined these are the standard suite of policies and procedures we would expect to find in an organisation with satisfactory arrangements in place. As highlighted by internal audit, it is important that there is ongoing awareness and further regular refreshers of the content so that board members and staff are alert to the potential for fraud or irregularity.

Financial position

26. Moray College reported a deficit of £416,000 in respect of 2011/12 which represented -3.8% of income and held a reserve balance of £627,000 at 31 July 2012. With a reduction in grant income and the costs associated with staff departures through early retirement, the college carried out work to reduce its cost base but in the interim, planned to balance its 2011/12 budget through the use of reserve balances. More widely, the sector faces a variety of financial challenges in the year ahead including a reduction in Scottish Government revenue funding, possible cost pressures arising from structural reform and a potential rise in the demand for college spaces.
27. The college accounts for pension contributions to the Local Government Pension Scheme as if it were a defined contribution scheme. This approach is taken because the actuary cannot separately identify the assets and liabilities of the college on a consistent and reasonable basis. Instead the actuary identifies the assets and liabilities of the north east of Scotland colleges on an aggregate basis which means they receive a pooled valuation and share a

common contribution rate. On this basis we are satisfied with the approach in respect of 2011/12. This is consistent with the accounting treatment adopted in previous years.

Performance

28. Planned structural reforms of the further education sector are expected to result in the number of colleges in Scotland falling from 37 to 23. The planned reforms have the potential to bring a more strategic approach to the management of the sector and more robust planning of the education provided in each region. Further work is required nationally to identify and articulate the costs and benefits of regionalisation and to improve the outcome agreements covering the sector's contribution to national objectives for education and learning.
29. Locally, Moray College will continue to work with the partner colleges which make up the University of the Highlands and Islands (UHI). UHI will become the fundable body for the region.

Acknowledgements

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