HENDERSON LOGGIE
Chartered Accountants

Motherwell College

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

External Audit Report No: 2012/02

Draft Issued:	**12 November 2012** **8 March 2013**
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HENDERSON LOGGIE

Notice: About this report

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

This report is for the benefit of only Motherwell 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 11 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.

- The annual financial statements of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- There were six potential adjustments identified during the audit process with a net impact on the surplus of £0.051 million increase. Following discussion with management it was agreed to make no adjustment for these items.

- 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.

- The College continued its opportunity for voluntary severance during the year to 31 July 2012. The total costs of early retirements/voluntary severance payments for 2011/12 was £1.421 million (2010/11- £1.208 million).

- The Group has shown a surplus for the year of £0.523 million (2010/11 - £0.889 million), and an Income and Expenditure Account balance of £21.034 million at 31 July 2012 (31/07/11 - £23.094 million).

- The College's position is a surplus for the year of £0.397 million (2010/11 - £0.628 million) and an Income and Expenditure Account balance of £19.864 million at 31 July 2012 (31/07/11 - £22.051 million).

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.

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

Performance

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

Outlook

- In January 2013 Motherwell and Cumbernauld colleges announced merger plans and invited the other colleges to join them. At the date of this report the merger consists of Motherwell and Cumbernauld Colleges. Work is underway to take the merger proposal forward.

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

- The funding position will remain challenging going forward.

Background

1. 2011/12 was the first year of our five year appointment as external auditors of Motherwell 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 ISA 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 31 August 2012 and considered and approved by the Audit Committee on 25 September 2012. The scope of the audit was to:

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

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

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

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

   - compliance with legislation and financial regulations;

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

   - recoverability of debtors;

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

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

   - the financial results of the College's subsidiary company and the impact on the Group financial statements; 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 11 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 accounts and this was undertaken in the period to 11 February 2013. One post balance sheet event was identified which required changes to the Report of the Board of Management - OFR and notes to the accounts in relation to the proposed merger with Cumbernauld College announced on 11 January 2013 (refer to the Outlook Section on page 13).

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 at the start of 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. There were six potential adjustments identified during the audit process as detailed in Table 2. Following discussion with management it was agreed to make no adjustment for these items. The overall impact of these unadjusted audit differences on the financial statements would be to increase the reported surplus for the year by £0.051 million, which is below our performance materiality.

Table 2: Audit and accounting potential adjustments – impact on financial statements

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
Accrued income			18	
Income		18		
Post year end sales invoice review not accrued				
Early retirement provision			34	
Staff costs		34		
Provision for unfunded early retirals already made				
***Trivial entries**:*				
Other operating expenses	5			
Accruals				5
Post year end purchase invoice review not accrued				
VAT liability			4	
Other operating expenses		4		
Adjustment to year end VAT liability				
***Reclassification entries**:*				
Trade debtors			12	
Trade creditors				12
Credit balances on year end aged debtors list				
Trade debtors			54	
Trade creditors				54
Debit balances on year end aged creditors list				
	_______	_______	_______	_______
	5	**56**	**122**	**71**
	=====	=====	=====	=====

16. The first of the potential accounting adjustments noted in Table 2 was in connection with a review of post year end sales invoices which identified income totalling £0.018 million relating to the 31 July 2012 financial year end that was not accrued at the year end. The effect of this adjustment would be to increase the surplus for the year by £0.018 million.

17. The second of the potential accounting adjustments noted in Table 2 relates to the early retirement provision for the SPF Scheme. This has been accounted for on the basis of the actuary report and valuation, as in prior years, which included an element for unfunded benefits amounting to £0.034 million. However, provision has already been made in the financial statements for unfunded early retirals and so this provision was effectively double counted. The effect of this adjustment would be to decrease the early retirement provision at 31 July 2012 and increase the surplus for the year by £0.034 million.

18. A small 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

19. We confirm that as at 11 February 2013, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

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

Financial Position

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

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

Table 3: Comparison of planned and actual financial results

	2010/11 Actual £000	2011/12 Planned £000	2011/12 Actual £000	2012/13 Planned £000
Financial outturn Surplus	889	230	523	180
Income and expenditure reserves	23,094	22,281	21,034	22,461
Cash balances	4,121	3,059	3,990	3,980

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

23. Overall, the Group's income in 2011/12 has decreased by £1.503 million (4.8%) over 2010/11 to £29.847 million.

24. The 2011/12 and 2010/11 surpluses were arrived at following significant charges for exceptional staff items (see paragraph 31) which means that the underlying position in both years is sustainable. Income in both years includes SFC economic downturn funding which has now been agreed for the 2012/13 financial year.

2011/12 SUMs Outturn

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

Table 4: 2011/12 SUMs outturn

	2010/11	2011/12
SUMS target	94,093	89,368
SUMS actual	93,760	88,907

Source: Audited SUMs returns

26. The audit of the SUMs return for 2011/12 was carried out by Scott-Moncrieff 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 SUMs core target has been revised downward to 77,665 as a result of the funding position notified by the SFC in March 2012. In addition to this core target the College will receive additional Economic Downturn monies to fund a further 4,851 SUMs, and its agreed share of the Regional SUMs is 4,651, giving a total target for 2012/13 of 87,167 SUMs. In addition to this the College will endeavour to deliver a further 1,401 SUMs for zero funding through efficiencies.

FRS 17 Retirement Benefits

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

29. The FRS 17 retirement benefit provision was accounted for on the basis of the actuary report and valuation which included unfunded liabilities amounting to £0.034 million. However, provision is already made in the financial statements for unfunded early retirals and so was effectively double counted. The effect of this adjustment would be to decrease the provision at 31 July 2012 and increase the surplus for the year by £0.034 million.

Provisions

30. The College has a provision in its balance sheet for £1,037 million (31/07/11 - £0.934 million) relating to pension costs from early retirements awarded to former employees. The College's approach to the valuation of the provision is to apply SFC actuarial tables on a consistent basis. The SFC issued guidance for the use of a net interest rate of 1.5% (2010/11 – 2.0%) which has been used by the College for 2011/12. We concluded that subject to the adjustment advised in the above paragraph the provision has been correctly calculated, included and disclosed in the financial statements.

31. The College continued its opportunity for voluntary severance during the year to 31 July 2012 and at the year end there are some applications from members of staff that were still being considered. An estimated cost of approximately £0.275 million for these applications has been included in the year end voluntary severance provisions accrued totalling £0.495 million (31/07/11 - £0.517 million). The total costs of early retirements/voluntary severance payments for 2011/12 was £1.421 million (2010/11- £1.208 million) and are disclosed in the total exceptional staff costs detailed in note 6.02 of the financial statements. We reviewed the accuracy and disclosure of voluntary severance costs and concluded that the amounts have been correctly included and disclosed in the financial statements.

Capital Income and Expenditure

32. The Group purchased tangible fixed assets with a value of £0.215 million in the year (2010/11 - £0.634 million) relating to property, plant and equipment. Of these assets £0.101 million have been funded from SFC formula capital funding. Deferred capital grants have been correctly treated in line with relevant fixed assets.

33. The College has entered into negotiations with Miller Construction (UK) Limited regarding remedial works on the heating and ventilation system at the new Motherwell Campus. Currently, the costs involved and which party will be liable are uncertain and so this event has been correctly disclosed in the financial statements as a contingent liability.

Student Support Funds

34. We discussed with the Finance Team the need for a more detailed audit trail to be maintained for each student fund. This audit trail should record all income received and amounts expensed, including transfers to/from other funds and any interest and charges which should reconcile in total to the student funds grant forms, the amounts held in individual student fund bank accounts and to the final figures disclosed in the notes to the accounts.

Corporate Governance

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

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

- Bodies' reviews of corporate governance and systems of internal control, including reporting arrangements
- The prevention and detection of fraud and irregularity
- Standards of conduct and arrangements for the prevention and detection of corruption
- The financial position of audited bodies

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

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

Systems of Internal Control

Control Environment

39. No material weaknesses in the accounting and internal control systems were identified during the 2011/12 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

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

Internal Audit

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

42. The annual internal audit report 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

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

44. The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations and a Prevention of Fraud Policy. These documents are reviewed and updated annually.

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

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

    - Code of Conduct for Board Members
    - Register of Board Members' and Senior Staff Interests
    - Fraud and Corruption Policy

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

Performance Audit

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

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

National Performance Reports

50. Audit Scotland published *Learning 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 the sector in taking forward the Government's regionalisation agenda. This is discussed further in the Outlook section.

51. The other main report relevant to the College is *Scotland's Colleges – current finances, future challenges* issued in October 2012. The report makes recommendations for the Scottish Government, the Scottish Funding Council, 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 Scottish Funding Council's guidance on mergers and the Audit Scotland report *Learning the lessons of public body mergers*, to ensure effective management of their own mergers
- explore opportunities to reduce their costs through economies of scale, joint working and better partnership working. Colleges should develop clear assessments of the workforce skills and attributes needed in future to inform their strategies and procedures for staff changes and reductions."

52. The report noted the strong financial position of the College. It is clear from discussion with management and a review of information about the regionalisation process that further actions that address these recommendations will be undertaken as the development of the Lanarkshire Federation progresses.

College Arrangements

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

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

College Arrangements (Cont'd)

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

Risk Management

56. The College has an on-going process for identifying, evaluating and managing its significant risks. It has a risk management policy and risk management procedures in place that are actively monitored and reported on. Risk management is also seen as a Board matter, forming part of the College's strategic vision. We noted that there are clear links drawn between the key risks in the register and the College's Strategic Plan.

2012/13 and Beyond

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

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

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

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

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

62. In January 2013 Motherwell and Cumbernauld colleges announced merger plans and invited the other colleges to join them. Work has gone on between Motherwell and Cumbernauld to take the merger proposal forward.

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

64. The Scottish Funding Council issued a circular in February 2012 on the indicative college sector financial decisions for 2012-13 and provided indicative allocations for each region. Every college's base teaching grant has been reduced by 8.4%. Student support funding and capital maintenance allocations are to be maintained at the 2011/12 baseline level. The College's indicative allocation for teaching grant for 2012/13 is £14.340 million. As detailed at paragraph 27 the College has also received additional funds to deliver 4,651 SUMs as part of the agreed Regional split in 2012/13.

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

Appendix 1
Audited Bodies' Responsibilities

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 (e.g. the relevant Scottish Government Health Directorate for NHS bodies). Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

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

Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.

Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

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

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

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

Appendix 1
Audited Bodies' Responsibilities

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.