HENDERSON LOGGIE
Chartered Accountants

North Highland College UHI

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

External Audit Report No: 2012/02

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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 North Highland College UHI 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.

Financial Statements

- On 15 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.

- No audit and accounting adjustments were made to the financial statements. It was agreed not to amend the financial statements for 11 potential adjustments on the grounds that the overall impact of these on the financial statements is not material.

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

- The College's position is a surplus for the year of £0.375 million (2010/11 – deficit £0.032 million), and an income and expenditure account balance of £1.676 million at 31 July 2012 (31/07/11 - £1.169 million).

- The College has exceeded its SUMS target for 2011/12 by 4.7% (2010/11 – 3.6%). The College also exceeded its target for higher education FTEs by 8 FTEs (1.8%), (2010/11 – 22 FTEs, 5.4%).

- Building work on the £8.3 million Engineering, Technology and Energy Centre was completed in August 2011. This has been funded by the Nuclear Decommissioning Authority, the SFC, the European Regional Development Fund and Highland Council.

- In response to the reduced funding for 2011/12 a significant restructuring took place at the end of the 2010/11 financial year covering senior management, middle management, teaching and non-teaching activities. A curriculum review was carried out in the autumn of 2010 to help inform teaching reductions.

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

- Education Scotland published a positive report on the further education provision of the College in May 2012. The report gave four clear confidence statements with no caveats. It also identified a number of strengths and two examples of excellent practice.

Outlook

- North Highland College is part of the Highlands & Islands Region, along with Perth, Lews Castle, Orkney, Shetland, Inverness, Moray, Argyll and West Highland colleges. A UHI Working Group has been formed to make proposals on the future structure and function of the UHI and discussions are ongoing.

- In relation to Shared Services, UHI Academic Partners continue to consider the potential for optimising efficiencies and achieving best practice across the Partnership including a move to develop shared Learning and Information Services (LIS).

- The College suffered a further significant reduction in its further education funding from the SFC for 2012/13 although there was an increase in higher education funding. In May 2013 the Director of Finance presented a draft budget for 2012/13 to the Finance and General Purposes Committee for recommendation to the Board of Management. This showed a break-even position. The funding position will remain challenging going forward.

Introduction

Background

1. 2011/12 was the first year of our five year appointment as external auditors of North Highland College UHI ('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 25 May 2012 and considered and approved by the Audit Committee on 5 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 are similar to most colleges and include;

   - compliance with legislation and financial regulations

   - fixed assets transactions, including consideration of any impairment; 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

   - 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 15 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 15 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. 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 statements are not consistent with our knowledge of the body and report if the statement does not comply with SFC requirements. 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 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. There were 11 potential adjustments identified during the audit process and these were discussed with the Audit Committee. 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 not a material amount.

16. The potential adjustments included the four items noted in paragraphs 17 to 20 below.

17. The first was in connection with the release from the revaluation reserve to the income and expenditure account reserve for fixed assets revalued in 1994 to bring results back to historical cost. The calculation of the release included current year additions which have not been revalued. By excluding these additions, the release would be increased by £0.020 million. This adjustment would have no effect on the reported surplus for the year. This was discussed with the College Finance Team and it is planned that the College workings be revised for the 2012/13 financial year.

18. The second relates to the treatment of Childcare grant received from the SFC and the related expenditure. The Accounts Direction detailed guidance notes state that: *'further and higher education Childcare funds received by colleges should be included in the main income and expenditure account as colleges have more discretion in the manner in which these funds are disbursed and these funds do not therefore meet the definition of agency funds. The income from Childcare funds should be identified as a separate line in the funding council income note. Related expenditure from the fund should be shown as a separate line within the appropriate expenditure heading.'* This adjustment, for £0.082 million would have no impact on the reported surplus for the year and College management has indicated that they do not wish to revise the financial statements for this.

19. The third relates to the inclusion in Accruals of 'provisions' totalling £0.055 million (31/07/11: £0.060 million) in relation to building and equipment back maintenance at the Environmental Research Institute, the Centre for Energy and the Environment and the Engineering, Technology and Energy Centre. This work had not been carried out at 31 July 2012. FRS 12 – Provisions, Contingent Liabilities and Contingent Assets states that: *'a provision should be recognised when an entity has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.'* In our opinion these conditions have not been met in this instance and therefore a provision should not be recognised. FRS 12 includes examples of repairs and maintenance provisions made in similar circumstances and also concludes that no provision should be recognised. Management has indicated that they do not want to release the provisions, which would have the effect of increasing the reported surplus for the year and net assets by £0.055 million. As this figure is not material we accept this position although recommend that provisions included in the 2012/13 financial statements should comply fully with the requirements of FRS 12. (see recommendation **R1** Appendix II).

Audit and Accounting Adjustments and Confirmation (Continued)

20. The fourth relates to the accrual of the final amount due to the contractors on the Engineering, Technology and Energy Centre project together with the related grant monies receivable. This adjustment would have no impact on the reported surplus for the year, although net assets would increase by £0.090 million. College management has indicated that they do not wish to revise the financial statements for this.

21. 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

22. 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.

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

Financial Position

24. 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.’

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

Table 3: Comparison of planned and actual financial results

	2010/11 Actual £000	2011/12 Planned £000	2011/12 Actual £000	2012/13 Planned £000
Financial outturn Surplus/(deficit)	(32)	(400)	375	0
Income and expenditure reserves	1,169	931	1,676	1,314
Cash balances	1,185	(504)	1,480	1,540

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

26. Overall, College income in 2011/12 has decreased by £0.783 million (5.1%) over 2010/11 to £14,520 million mainly as a result of a reduction in SFC grants.

27. In response to the reduced funding for 2011/12 a significant restructuring took place at the end of the 2010/11 financial year covering senior management, middle management, teaching and non-teaching activities. A curriculum review was carried out in the autumn of 2010 to help inform teaching reductions.

Financial Position (Continued)

Going Concern

28. For 2010/11, given the in-year deficit and budgeted deficit for 2011/12 the College delayed the signing of the financial statements to allow further consideration to be given to its going concern position. Following the production, in January 2012, of a projected outturn for 2011/12 showing a break-even position, the financial statements were signed with an unqualified opinion in March 2012.

29. The financial environment for 2011/12 was challenging and College staff have worked hard to achieve the positive financial results for this year. Financial challenges will continue for the foreseeable future but the College has budget setting and monitoring arrangements in place that should aid sustainability in future. These arrangements were reviewed by Internal Audit during the year and evaluated as being 'substantial – controls largely satisfactory although some weaknesses identified'. A number of improvement actions, none of which required high priority attention, were agreed.

30. Audit Scotland's national report *Scotland's colleges – Current finances, future challenges* published in October 2012, comments on the financial position of all Scotland's colleges. This demonstrates, using 2010/11 information, that the College was not in as strong a financial position as a significant number of others, taking into account the operating position, accumulated income and expenditure reserves, and cash and cash equivalents (CCE). In particular the College's CCE position, at 28 days, was below the 60 days of cash available to meet immediate financial commitments that is considered good practice by the SFC. The results for 2011/12 have strengthened the College's position, with the surplus for the year increasing the income and expenditure account reserve and CCE for 2011/12 showing 38 days.

31. From our review of the results for the year and other available information we are satisfied that going concern is not an issue for the 2011/12 financial statements, although the budget for 2012/13 is breakeven and there is still some reliance on one-off funding in achieving this position.

2011/12 FTEs/SUMs outturn

32. The College's outturn against its 2011/12 FTEs/WSUMs targets is shown in table 4.

Table 4: 2011/12 SUMs outturn

	HE 2010/11	HE 2011/12	FE 2010/11	FE 2011/12
FTE / WSUMS target	404	448	31,372	31,549
FTE/WSUMS actual	426	456	32,505	33,041
Excess	22	8	1,133	1,492

Source: College records / audited SUMs returns

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

Financial Position (Continued)

34. The 2012/13 WSUMs target has been revised downward to 23,704 (15,443 to be delivered by North Highland College and 8,261 to be delivered by Argyll College) as a result of the funding position notified by the SFC in August 2012. This figure does not now include the WSUMs to be delivered by West Highland College, which was confirmed as a SFC fundable body in its own right from 1 August 2012. Prior to this North Highland College received such funding and was the accountable body to the SFC for such further education activity.

FRS 17 Retirement Benefits

35. 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

36. Significant progress has been made in recent years with the College's estates strategy. Building work on the Centre for Energy and the Environment and the £8.3 million Engineering, Technology and Energy Centre was completed in December 2010 and August 2011 respectively. The Engineering, Technology and Energy Centre has been funded by the Nuclear Decommissioning Authority, the SFC, the European Regional Development Fund and Highland Council.

37. 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. We recommended in our 2011/12 Annual Audit Plan that consideration be given to obtaining surveys of the new buildings from the College's professional advisors to identify major components with substantially different useful economic lives. From discussion with College management at our year-end visit we established that this information is not currently available however plans are in place to obtain it and apply it for the 2012/13 financial statements (see recommendation **R2** Appendix II). 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.

38. The College is currently reviewing its estate in order to make the best use of its various campuses and properties in the future. This exercise is also being used to identify properties which are surplus to those future requirements. As part of our audit we considered the implications of Board decisions made to date on property valuations and disclosure in the financial statements at 31 July 2012 and no audit adjustments were required.

Corporate Governance

39. 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.

40. 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

41. 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.

42. 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

43. 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.

44. Following our interim visit in June, and the subsequent testing we performed during the year-end audit to update our findings, we concluded that the key controls for the main financial systems tested were in place and operating as expected. No weaknesses or issues were found that would impact adversely on the financial statements or our year-end audit.

Internal Audit

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

46. The annual audit report did not identify any issues that affect our audit conclusions.

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

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

48. The College has appropriate arrangements in place to deter fraud and irregularity, including current versions of its Financial Regulations and a Governance Manual including Standing Orders and a Fraud & Corruption Policy. These documents are reviewed and updated regularly. The last full review was during 2011 and both documents were approved by the Board in October 2011. 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 in place the following procedures/policies in relation to standards of conduct and prevention and detection of corruption. These are incorporated in the Governance Manual and are reviewed and updated regularly:

    - Code of Conduct for Board Members
    - Register of Board Members' and Senior Staff Interests
    - Fraud & Corruption Policy
    - Public Interest Disclosure (Whistleblowing) Policy and Procedures
    - Anti-bribery policy.

50. The Board considered the Bribery Act 2010, and took the decision to adopt the UHI Anti-Bribery Policy which is included in the Governance Manual. Following a Governance review by Internal Audit in January 2012 it was agreed to add further information on the Bribery Act into the Financial Regulations.

Introduction

51. 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.

52. 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 identified that the Board plan to use the checklist in the *Role of the Board* report to undertake self-evaluation. We have not identified any additional actions in these areas that the College needs to take.

National Performance Reports

53. 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 College and its regional partners in taking forward the Government's regionalisation agenda, albeit that a full merger is not anticipated in the Highland & Islands region. This is discussed further below and in the Outlook section.

54. 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.'

55. 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, where applicable, further actions that address these recommendations will be undertaken as the development of the Highlands & Islands regional college grouping progresses.

56. An external consultant was appointed by the University Court of the UHI in September 2011 to undertake a review of the University's governance and management. The report was received in January 2012 and was taken forward by the University in the context of the wider changes to further and higher education in Scotland arising from the regionalisation of further education and the outcomes of the Scottish government's governance reviews of both further and higher education. A UHI Working Group has been formed to make proposals on the future structure and function of the UHI and discussions are ongoing in this respect.

57. In relation to Shared Services, UHI Academic Partners continue to consider the potential for optimising efficiencies and achieving best practice across the Partnership including a move to develop shared Learning and Information Services (LIS).

College arrangements

58. Audit Scotland reports are considered by management upon receipt and thereafter brought to the attention of the Board committee responsible, if appropriate.

59. 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 Governance Manual clearly records the management responsibilities of the Board and each Committee, and how these interact with each other. Discussion with managers and our review of meeting papers and minutes confirms these responsibilities appear to be undertaken in an appropriate manner.

Education Scotland Review

60. Education Scotland published a positive report on the further education provision of the College in May 2012 following a visit in February / March 2012. The report gave four clear confidence statements with no caveats. It also identified a number of strengths and two examples of excellent practice in relation to the community learning environment offered through the operation of Burghfield House Hotel and employer engagement and partnership working evidenced through the operation of the Engineering, Technology and Energy Centre. Two main points for action were included around improving attainment rates where these are low and ensuring quality arrangements are effective in enhancing learning and teaching.

61. The report is Crown Copyright and can be found at this link:

http://www.educationscotland.gov.uk/Images/NorthHighlandRev180512_tcm4-721033.pdf

2012/13 and beyond

62. The Scottish Government's College regionalisation plans are well underway in the sector although various regions are at differing stages in the process. Regional Outcome Agreements with the SFC have been finalised for 2012/13 and the regional allocation of funding is planned for 2013/14. Legislation to take the regionalisation agenda forward is likely in late 2012 / early 2013.

63. North Highland College is part of the Highlands & Islands Region, along with Perth, Lews Castle, Orkney, Shetland, Inverness, Moray, Argyll and West Highland colleges. It is expected that the fundable body for the Highlands & Islands region will be the UHI.

64. The Board of Management has been kept up-to-date regularly with information about the regionalisation process and has discussed the position of the Colleges and UHI in relation to this. The regionalisation process is a standing item on the Board of Management meeting agendas.

65. 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.

66. In February 2012 the SFC announced indicative financial decisions for 2012/13 and this identified a further proposed cut of £0.776 million in revenue funding (Grant in Aid and Fee Waiver) to £7.111 million, with capital funding remaining unchanged. This represented a reduction of 9.84% from 2011/12. There was subsequently a further cut in revenue and capital funding of £1.487 million and £0.061 million respectively when West Highland College was confirmed as a SFC fundable body in its own right from 1 August 2012.

67. Set against this, the College expects to receive £0.272 million from redistribution monies re additional regional WSUMs to deliver further activity amounting to 1,431 WSUMs (946 to be delivered by North Highland College and 485 to be delivered by Argyll College). In addition, for 2012/13, 4% of college places are to be secured through the introduction of a scheme between Skills Development Scotland and colleges. The College's indicative allocation for this scheme is £0.059 million for 26 places.

68. The level of recurrent grant budgeted from UHI for 2012/13 is £1.366 million, an increase of £0.348 million or 34.2% on 2011/12 budget.

69. In May 2013 the Director of Finance presented a draft budget for 2012/13 to the Finance and General Purposes Committee for recommendation to the Board of Management. This showed a break-even position.

70. A draft budget was issued by the Scottish Government on 2 October 2012 which indicated further significant reductions in further education 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.

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 (eg, 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

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
19	**Financial Position** **Provisions** **R1** Provisions in the 2012/13 financial statements should comply fully with the requirements of FRS 12.	C	Will review for future years	Y	Director of Finance	31 July 13
37	**Capital Income and Expenditure** **R2** Plans to obtain information from the College's professional advisors, to identify major components within the new buildings with substantially different useful economic lives should be taken forward with a view to accounting separately for depreciation purposes for each component and depreciating each over its individual useful economic life.	C	External Project Manager recently provided a breakdown for both ETEC and CFEE regarding cost analysis and components of projects. This has been collated for the Valuer – this will help to form part of work for fixed assets for year ended 31 July 13	Y	Director of Finance	31 July 13

Grade

A	Fundamental issues which require the consideration of the Board of Management 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.