Aberdeen College

Annual Report on the 2012/13 audit

AUDIT SCOTLAND

Prepared for the Board of Management of North East Scotland College
and the Auditor General for Scotland
December 2013

Contents

Summary

Key messages from the 2012/13 Audit

1. With effect from 1 November 2013, Aberdeen College merged with Banff and Buchan College to form North East Scotland College. Our report is made to the Board of Management of North East Scotland College and covers the financial year of Aberdeen College ended 31 July 2013.
2. We have given an unqualified opinion on the financial statements of Aberdeen College and its group for the year ended 31 July 2013 and on the regularity of the financial transactions reflected in those financial statements.
3. We concluded that governance and internal controls were generally operating satisfactorily.
4. In 2012/13, the group reported a surplus of £1.3m representing 3.5% of income and held a reserve balance of £24m at 31 July 2013. This was intended to provide some cushion for the college as the outlook for the sector generally is one of financial challenges. North East Scotland College is currently setting up a Foundation which is an arms-length vehicle intended to assist the college minimise the impact of reclassification on its finances.

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 Annual Audit Plan presented to the Audit Committee in May 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. The Board of Management 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 of North East Scotland College on 26 November 2013.

Financial statements audit opinion & representations

8. We have given an unqualified opinion on the financial statements of Aberdeen College and its group for the year ended 31 July 2013 and on the regularity of the financial transactions reflected in those financial statements. The proposed auditor's report is attached at [Appendix A](#).

9. With the exception of a potential cut off error of £107k where we agreed with finance not to adjust the accounts, presentational and monetary adjustments identified during the course of our audit were discussed and amended in the financial statements. In overall terms, the revised amounts had a net effect of increasing income by £64k and expenditure by £10k. Net assets as recorded in the group balance sheet have increased by £540k. The main amendments reflected the results of an interim valuation of the college estate.

10. The college has an accounting policy to revalue land and buildings every five years. The Statement of Recommended Practice (the SORP) 2007 covering accounting in Further and Higher Education requires colleges with a policy of revaluing their tangible fixed assets to carry out a full valuation every five years, and an interim valuation in the third year. The last full valuation was carried out in 2010 and therefore an interim valuation was due in 2013. No updated valuation had been undertaken for the 2012/13 accounts and consequently, the unaudited accounts continued to reflect the 2010 valuation.

11. An interim revaluation was subsequently carried out by F G Burnett (Property Consultants) in November 2013 and reflected the valuation of assets at 31 July 2013. The impact of the valuation has largely affected the Balance Sheet with an increase of £486k in fixed assets and the revaluation reserve.

12. Financial Reporting Standard (FRS) 15 requires that any decrease in the valuation of an asset should be off-set first against any revaluation surplus for that asset. Any remaining balance should be taken to the consolidated income and expenditure account. The interim valuation of the Gallowgate Centre led to a reduction in its net book value of £1,140k. Management were unable to separate the revaluation reserve into its constituent elements and were therefore unable to demonstrate that an off-setting balance exists in relation to the Gallowgate Centre. We are however, aware that the property has been owned by the college since 1993 and that the building has been revalued upwards over the years. In addition, the asset is approximately 44% of the total net book value.

13. We have therefore accepted management assurances that the Gallowgate has sufficient revaluation surplus to absorb this loss without affecting the consolidated income and expenditure account. Management will however require to review the revaluation reserve and separate the balances into its constituent elements. This will be of particular importance given the recent restructuring of the college and the planned sale of the Balgownie Centre.

14. We also drew attention to the college's accounting treatment for pension costs. The college accounts for pension contributions to the Local Government Pension Scheme as if it were a defined contribution scheme. This means that the liability to pay for future pensions of current staff is not recognised on the balance sheet as required by FRS 17. 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. At 31 July 2013 however, provisions included an amount of £1.1m representing an earlier method of accounting for pension liabilities. The ongoing inclusion of this balance appears odd in the context of an accounting policy which is supportive of FRS17.

15. College mergers have however provided the opportunity for colleges to re-consider and streamline the accounting treatment for pension costs and where possible, they have enabled steps to be taken to achieve full compliance with FRS17. Over the period to 31 March 2014, the date of the next pension fund triennial valuation, North East Scotland College will discuss existing practices with the actuary with a view to moving towards full implementation of the pension accounting requirements of FRS 17 by 31 March 2014 or as soon as possible thereafter.

16. 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 draft letter of representation under International Standard of Auditing (ISA) 580 was provided to the Principal and this should be signed and returned prior to the independent auditor's opinion being certified.

Governance and internal control systems

17. 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.

18. 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.

19. 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

20. Scrutiny of the effectiveness of the internal control processes within Aberdeen College was undertaken by the Audit Committee. The terms of reference for the committee were largely in line with the UK Corporate Governance Code 2010 (the Code).

21. The Code and the Accounts Direction from the Scottish Funding Council require colleges to include a governance statement within their financial statements. The statement confirmed that in the opinion of the Board of Management, the college complied with the Code

throughout 2012/13. 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 Aberdeen College.

Internal control

22. 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 an assessment of risk and the activities of internal audit.

23. Internal audit for the college is provided by Wylie & Bisset LLP. Generally, we seek to rely on the work of internal audit wherever possible and in respect of 2012/13, we concluded that reliance could be placed on their work. In their annual report for 2012/13, Wylie & Bisset LLP provided their opinion that based on the internal audit work undertaken during the year, the college had adequate and effective risk management, control and governance processes to manage its achievement of the college objectives.

24. 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

25. The college's risk management strategy, processes and risk register were kept under regular review by the Board of Management to ensure that risks were adequately managed by the college.

Prevention and detection of fraud and irregularities

26. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We noted for example, standing orders, a prevention of fraud policy, whistle blowing policy 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.

Financial position

27. Aberdeen College and its Group reported a surplus of £1.3m in respect of 2012/13 which represented 3.5% of income and held an income and expenditure balance of £24m at 31 July 2013.

28. More widely, the sector faces a variety of financial challenges in the year ahead as it implements the requirements of reclassification of colleges as public bodies from April 2014. This will require colleges to operate under a different financial framework and will restrict colleges' scope to build up reserves. Foundations are being considered across the sector as

an arms-length vehicle intended to minimise the impact of reclassification on colleges' finances.

Performance

29. Structural reforms of the further education sector have resulted in mergers and the formation of federations which will ultimately create 13 college regions. This restructuring represents a major change for the college sector and which the Scottish Funding Council anticipates will generate significant savings in the longer term.

30. Aberdeen College's Board of Management was working with the Board of Management of Banff and Buchan College to progress arrangements for a federation but in December 2012, both colleges decided to proceed to a full merger. The vesting date was agreed as 1 November 2013.

Acknowledgements

31. We would like to express our thanks to the staff of Aberdeen College for their help and assistance during the 2012/13 audit.

APPENDIX A:

Proposed Independent Auditor's Report

Independent auditor's report to the members of the Board of Management of North East Scotland College, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Aberdeen College for the year ended 31 July 2013 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the group Consolidated Income and Expenditure Account, Consolidated Statement of Historical Cost Surpluses and Deficits, Statement of Total Recognised Gains and Losses, the Balance Sheet, Consolidated Cash Flow Statement, college-only Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to board members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Responsibilities of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements, irregularities or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the group and of Aberdeen College as at 31 July 2013 and of the surplus of the group and the college for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on regularity

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In my opinion the information given in the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

I have nothing to report in respect of these matters.

Anne MacDonald CA
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10 December 2013

Anne MacDonald is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000