

Banff and Buchan College

Annual Report on the 2012/13 audit



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

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

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Summary

Key messages from the 2012/13 Audit

1. With effect from 1 November 2013, Banff and Buchan College merged with Aberdeen 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 Banff and Buchan College ended 31 July 2013. There will be additional accounts and an audit report covering the 3 month period prior to the merger, from 1 August 2013 to 31 October 2013.
2. We have given an unqualified opinion on the financial statements of Banff and Buchan College 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 college reported a deficit of £285,000 which represented -2.43% of income. This was due to the planned maintenance of the college estate being funded from reserves and the buy-out of the surplus share scheme. A reserve balance of £599,000 was held at 31 July 2013 which was intended to provide some cushion for the college. 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 Banff and Buchan College 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 included at [Appendix A](#).
9. There were no significant monetary errors arising from the audit. A number of presentational adjustments identified during the course of our audit were amended. However, we highlighted an issue related to the valuation of the college's estate. On implementing Financial Reporting Standard (FRS) 15, accounting for fixed assets, several years ago, the college opted to take advantage of transitional arrangements which permitted book values at implementation to be retained. This treatment, set out within the college's accounting policies, is a different approach to that adopted by Aberdeen College where assets are revalued every 5 years in accordance with the Statement of Recommended Practice 2007 (the SORP) covering Further and Higher Education, with an interim revaluation during year 3. While both approaches are permitted, it would be appropriate for the North East Scotland College to adopt a consistent basis of valuation for its fixed assets from the vesting date of 1 November 2013. The valuation of the Banff and Buchan College estate is to be reviewed and the outcome reflected in the accounts for the 3 month period ended 31 October 2013.
10. We also drew attention to the college's accounting treatment for pension costs. Pension contributions to the Local Government Pension Scheme are accounted for 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 Financial Reporting Standard (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.
11. 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. With the next pension fund triennial valuation due at 31 March 2014 and with the establishment of the new North East Scotland College, the next year provides a good opportunity to enter into discussions with the actuary to review the college's accounting treatment for pension costs.
12. 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

13. 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.
14. 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.
15. 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

16. Scrutiny of the effectiveness of the internal control processes within Banff and Buchan 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).
17. 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 Banff and Buchan College.

Internal control

18. 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.
19. Internal audit for the college was provided by Scott Moncrieff. 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, Scott Moncrieff provided their opinion based on the internal audit work undertaken during the year. This confirmed that the framework of controls in place provided appropriate assurance regarding the effective and efficient achievement of college objectives and the management of risks. However, attention was drawn to the college's need to develop business continuity arrangements.

20. 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

21. The college's risk management policy and risk register were kept under regular review by the Audit Committee to ensure that risks were adequately managed by the college.

Prevention and detection of fraud and irregularities

22. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We noted for example, standing orders, fraud and irregularity policy and procedures and a public interest disclosure policy. This latter policy sets out the college's process for responding to suspected fraud and financial regularities. Together, these policies and procedures set out satisfactory arrangements for managing fraud. However, it should be noted that no system can eliminate the risk of fraud entirely.

Financial position

23. Banff and Buchan College reported a deficit of £285,000 in respect of 2012/13 which represented -2.43% of income and held an income and expenditure balance of £599,000 at 31 July 2013. The deficit arose from the planned maintenance of the college estate being funded from reserves and the buy-out of the surplus share scheme.
24. 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

25. 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.
26. Banff and Buchan College's Board of Management was working with the Board of Management of Aberdeen 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.

27. Education Scotland undertook a review of Banff and Buchan College in 2012/13 and reported in March 2013. The report highlighted effective partnership working with Shell on two specific programmes. However, the report recommended the development of effective evaluation arrangements across the college as a means of informing improvement. These matters will be addressed as part of North East Scotland College's overall performance arrangements.

Acknowledgements

28. We would like to express our thanks to the staff of Banff and Buchan 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 Banff and Buchan 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 Income and Expenditure Account, Statement of Historical Cost Surpluses and Deficits, Statement of Total Recognised Gains and Losses, the Balance Sheet, Cash Flow Statement 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 accounts 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 Banff and Buchan College as at 31 July 2013 and of its deficit 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