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Chartered Accountants

Kilmarnock College

Annual Audit Report for 2012/13 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2013/02

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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.

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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.

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Executive Summary

The Kilmarnock College (Transfer and Closure) (Scotland) Order 2013

- The Kilmarnock College (Transfer and Closure) (Scotland) Order came into force on 1 August 2013. The Order made provision for all property, rights, liabilities and obligations of Kilmarnock College Board to be transferred to the Ayr College Board. Contracts of employment of all employees were also transferred and the Kilmarnock Board was wound up.

Financial Statements

- On 9 December 2013 we issued an audit report with an unqualified opinion on the financial statements of the College for the year ended 31 July 2013 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 the Scottish Funding Council (SFC) and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- One presentational adjustment was made to the financial statements; which had no impact on the 2012/13 surplus reported in the draft financial statements. A further four potential adjustments were not processed. The overall impact of these unadjusted audit differences on the financial statements would be to decrease the reported surplus for the year by £0.033 million, which is not a material amount.

- 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's position is a surplus for the year of £0.481 million (2011/12 – surplus £0.639 million), and an income and expenditure account balance of £3.795 million at 31 July 2013 (31 July 2012 - £3.028 million). Both years included significant exceptional expenditure in arriving at this position.

- The College's land and buildings were revalued at 31 July 2013.

- The College has exceeded its WSUMs target for 2012/13 by 1.9% (2011/12 – 2.7%).

- A new Campus for Kilmarnock is to be funded through the Scottish Futures Trust using the Non Profit Distribution (NPD) model. As a result expenditure of £0.653 million (2011/12 - £1.003 million) relating to the new Campus has been included in the Income and Expenditure Account (£0.459 million development costs shown as exceptional items and £0.194 million internal project team costs included within staff costs). The 2012/13 expenditure is matched by related SFC grants. A Preferred Bidder was announced on 1 November 2013 for the design, build, finance and maintenance of the new Campus.

Corporate Governance

- The College's Corporate Governance Statement confirms that the College complied 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 had complied throughout the year ended 31 July 2013.

- No material weaknesses in the accounting and internal control systems were identified during the 2012/13 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. This is consistent with the reports of the internal auditor BDO LLP. In general, the College's key systems of internal control appear to have been adequate, well designed and operating effectively.

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Corporate Governance (Continued)

- We did not identify any matters of concern relating to the College's corporate governance arrangements regarding the prevention and detection of fraud, or standards of conduct and the prevention and detection of corruption.

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

Performance

- The College management and committee structure included robust mechanisms to monitor and manage financial and non-financial performance which are considered appropriate.

Outlook

- The newly formed Ayrshire College, with Ayr College as the host, vested on 1 August 2013. Kilmarnock College joins Ayr College and the North Ayrshire Campuses of James Watt College in this new regional Ayrshire College.

- The funding position will remain challenging going forward. The voluntary severances undertaken in Ayrshire in 2012/13 and in previous years will help to further reduce future pay costs and assist the Ayrshire College in coping with the funding reductions, however robust budget setting and monitoring arrangements will be essential in helping to achieve sustainability.

- Following reclassification as central government bodies the financial year-end of colleges is changing from the academic year-end of 31 July to the Government year-end of 31 March. The first financial period under this new regime will be the eight months from 1 August 2013 to 31 March 2014.

- A new SORP incorporating International Financial Reporting Standards (IFRS) accounting has been developed in line with Financial Reporting Standard (FRS) 102. This will be finalised in 2014 and is expected to apply to accounts for 2015/16 onwards. The 2014/15 comparative figures and opening balances at 1 April 2014 will require restatement in the new format.

Points for Ayrshire College to Consider

- Component accounting would be applicable for the College's properties but has not been applied. It has been accepted that, particularly with the corresponding release of deferred capital grants, it would not give rise to a material difference in the depreciation charge to the Income and Expenditure Account. This should be considered further for the new Ayrshire College.

- The College's fixed asset register contains a hybrid of historical cost and revaluation information for land and buildings and it would be clearer if this information was maintained separately, providing a full reconciliation of the amount in the Revaluation Reserve. This should be considered further for the new Ayrshire College.

- Good governance arrangements have been in place for the new Campus project and Ayrshire College's Board of Management will need to ensure that these are maintained.

Introduction

Background

1. 2012/13 was the second year of our appointment as external auditors of Kilmarnock 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 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 2012/13 Annual Audit Plan issued on 28 May 2013 and considered and approved by the Audit Committee in June 2013. 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 Financial Reporting Council;

   - 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; 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; 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 9 December 2013 we issued an audit report with an unqualified opinion on the financial statements of the College for the year to 31 July 2013 and on the regularity of the financial transactions reflected in those financial statements.

9. 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 9 December 2013. Other than already disclosed, 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 although these did not include the Operating and Financial Review, Corporate Governance information and a small number of notes to the financial statements. These were received during the course of the audit. The draft financial statements 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 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 2012/13 states the College complied 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 2013.

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. In Table 2 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process. No material adjustments were made to the financial statements in 2012/13. A further four potential adjustments were not processed. The overall impact of these unadjusted audit differences on the financial statements would be to decrease the reported surplus for the year by £0.033 million, which is not a material amount. We have accepted management's decision not to make these adjustments. Details of the non-trivial unadjusted misstatements is provided in Table 3 below.

Table 2: Audit and accounting adjustments

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
***Reclassification entries**:*				
Exceptional College Merger costs	92			
Exceptional New Build Campus costs		92		
Reallocation of costs relating to set up of new Ayrshire College				
	_____	_____	_____	_____
	92	92		
	=====	=====	=====	=====

Table 3: Non-trivial unadjusted misstatements

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
Prepayments			8	
Other Operating Expenses		8		
Being prepayment re HR software invoice not recognised				
Gain / Loss on Disposal of Assets	41			
Revaluation Reserve				41
Restate gain / loss on sale of Nursery based on carrying amount in financial statements				
Revaluation reserve			41	
Income & Expenditure Account Reserve				41
Being transfer from revaluation reserve in respect of Nursery disposal				
	_____	_____	_____	_____
	41	8	49	82
	=====	=====	=====	=====

16. In addition, 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.

Audit and Accounting Adjustments and Confirmation (Continued)

Confirmations and Representations

17. 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.

18. In accordance with auditing standards, we will obtain representations from the College on material issues.

Financial Position

19. 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.

20. Table 4 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 4: Comparison of planned and actual financial results

	2011/12 Actual £000	**2012/13 Planned £000**	**2012/13 Actual £000**
Financial outturn Surplus	639	11	481
Income and expenditure reserve (excluding pension reserve)	3,028	3,184	3,795
Cash balances	4,167	4,862	5,077

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

21. Overall, College income in 2012/13 has increased by £0.103 million (0.7%) over 2011/12 to £14.100 million. The College's expenditure has increased £0.261 million (2%) over 2011/12 to £13.619 million.

22. The 2012/13 and 2011/12 surpluses were arrived at following charges for exceptional items and the sustainable underlying position in both years is a healthy surplus.

Financial Position (Continued)

2012/13 SUMs outturn

23. The College's outturn against its 2012/13 WSUMs target is shown in Table 5.

Table 5: 2012/13 SUMs outturn

	2010/11	2011/12	2012/13
WSUMs target (including ESF target)	55,349	52,669	53,371
WSUMs actual	56,663	54,110	54,399
Excess	1,314	1,441	1,028

Source: Audited SUMs returns

24. As the College's external auditor we carried out the audit of the SUMs returns for 2012/13. We 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 our testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

FRS 17 Retirement Benefits

25. In 2012/13 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.

Provisions

26. The College has a provision in its balance sheet for £0.843 million (31/07/12 - £0.833 million) relating to pension costs from early retirements awarded to former employees. The College has used an independent actuary to value the provision as at 31 July 2013. We concluded that the provision has been correctly included and disclosed in the financial statements.

Capital Income and Expenditure

27. A new Campus for Kilmarnock is to be funded through the Scottish Futures Trust using the Non Profit Distribution (NPD) model (estimated value circa £50 million). Under current UK Generally Accepted Accounting Practice (UK GAAP) the property will not appear on the College Balance Sheet. As a result expenditure of £0.653 million (2011/12 - £1.003 million) relating to the new Campus has been included in the Income and Expenditure Account (£0.459 million development costs shown as exceptional items and £0.194 million internal project team costs included within staff costs). The 2012/13 expenditure is matched by related SFC grants.

28. Component accounting would be applicable for the College's properties but has not been applied. This was discussed with College management and it has been accepted that, particularly with the corresponding release of deferred capital grants, it would not give rise to a material difference in the depreciation charge to the Income and Expenditure Account. This should be considered further for the new Ayrshire College.

29. At 31 July 2013 a full valuation of the College's land and buildings was performed in line with FRS 15 Tangible Fixed Assets. This gave rise to an overall valuation gain of £0.994 million, which has been credited to the revaluation reserve. £0.105 million has been charged to the Income and Expenditure Account in relation to assets where the valuation was less than the assets depreciated historical cost.

Financial Position (Continued)

Capital Income and Expenditure (Continued)

30. The College's fixed asset register contains a hybrid of historical cost and revaluation information for land and buildings and it would be clearer if this information was maintained separately, providing a full reconciliation of the amount in the Revaluation Reserve. This should be considered further for the new Ayrshire College.

Corporate Governance

31. 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.

32. 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

33. 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.

34. 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 College Governance Manual, governance arrangements for the new build campus project and 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

35. No material weaknesses in the accounting and internal control systems were identified during the 2012/13 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.

36. Following our interim visit in June 2013 we did not identify any significant control weaknesses and we do not intend to issue a separate management letter.

Internal Audit

37. 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. BDO LLP provided internal audit services to the College in 2012/13. 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.

38. The annual internal audit report for 2012/13, issued in June 2013, did not identify any issues that affect our audit conclusions.

Risk Management

39. Risk management is important for the development and on-going review of systems of internal control.

40. The College had risk management procedures in place that were actively monitored and reported on. This included an on-going process for identifying, evaluating and managing its significant risks.

Systems of Internal Control (Continued)

Risk Management (Continued)

41. Risk management is seen as a Board matter, with the key strategic risks being identified and reported to the Board. We noted that there were clear links drawn between the key risks in the Strategic Risk Register and the College's Strategic Plan.

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

42. During 2012/13 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

43. The College had appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations, Anti-Fraud & Anti-Corruption Policy, and a Raising Matters of Concern policy. These documents were reviewed and updated regularly.

44. No frauds were identified during 2012/13 or in the period since 31 July 2013 to the date of this report.

45. The College had in place a College Governance Manual that included the following appropriate procedures / policies in relation to standards of conduct and prevention and detection of corruption. These were reviewed and updated regularly with the latest review being October 2009.

- Code of Conduct for Board Members
- Register of Board Members' and Senior Staff Interests
- Procedures on Raising Matters of Concern
- Procedures for Handling & Investigating a Public Interest Disclosure.

46. The arrangements for maintaining standards of conduct and the prevention and detection of corruption were considered to be appropriate.

47. The Bribery Act 2010 was considered by the College Board of Management in 2011 and has since been embedded in College policies and procedures.

Introduction

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 2012/13.

National Performance Reports

50. Audit Scotland published *Scotland's Colleges – current finances, future challenges* 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.'

51. The College had already acted on and considered a number of these actions. It is clear from discussion with management and a review of information about the new Ayrshire College that further actions that address these recommendations will be undertaken as the development of Ayrshire College continues.

College arrangements

52. Audit Scotland reports were reviewed by College management upon receipt and thereafter considered by the Board of Management and Board committees.

53. Arrangements for financial and non-financial management were well established in the College, through the operation of the Senior Management Team and the Board and its various Committees. The College Governance Manual clearly recorded the performance management aspects of the Board and each Committee, and where appropriate, their responsibility to take action to address issues in performance. Discussion with managers and our review of meeting papers and minutes confirmed these responsibilities appeared to have been undertaken in an appropriate manner.

2013/14 and beyond

54. The regional college for Ayrshire, comprising Kilmarnock College, Ayr College and the North Ayrshire Campuses of James Watt College vested on 1 August 2013 with Ayr College as the host.

55. The Regional Outcome Agreement with the SFC has been finalised for the 12 month period to 31 July 2014.

56. The funding position will remain challenging going forward. The voluntary severances undertaken in Ayrshire in 2012/13 and in previous years will help to further reduce future pay costs and assist the Ayrshire College in coping with the funding reductions, however robust budget setting and monitoring arrangements will be essential in helping to achieve sustainability.

57. The procurement process for the design, build, finance and maintenance of the new Campus in Kilmarnock continued throughout 2012/13, with a Preferred Bidder announced on 1 November 2013. As previously noted in the Corporate Governance section of this report good governance arrangements have been put in place for the new Campus project and Ayrshire College's Board of Management will need to ensure that these are maintained.

Waste

58. The Waste (Scotland) Regulations 2012 will come into effect on 1 January 2014 for all business and organisations in Scotland. This new regulation requires key recyclable material and food waste to be presented for separate collection with the aim of helping Scotland reach its ambitious target of 70% recycling of all waste by 2025. We considered the arrangements at the College and found there to be adequate procedures already in place to meet the new regulations. A number of initiatives have been implemented throughout the College including recycling points and new arrangements in the training restaurant to ensure that waste is appropriately separated and uplifted for disposal.

ONS Reclassification

59. There has been significant discussion within the sector regarding the Office of National Statistics (ONS) decision to reclassify incorporated colleges in Scotland as Central Government bodies from 1 April 2014. This has a number of implications for budgeting, reporting and accounting practices and issues for consideration which the SFC has addressed through a series of Reclassification Communications.

60. The immediate practical impact of this change is that colleges' financial year-end will move from 31 July to 31 March, with the first set of March financial statements being produced for the eight month period to 31 March 2014. The format of financial statements will also have to change from 1 April 2014 as Central Government bodies use the Government Financial Reporting Manual (the FReM). The changes for 2014/15 are not significant as the Education SORP takes precedence over the FReM. No changes in accounting treatment are likely to be required although additional disclosure will be required, particularly in relation to remuneration and out-turn against budget.

61. One key item that will require decisions and action before 1 April 2014 is in relation to the setting up of an arms-length foundation or trust. The Central Government budget mechanisms mean that the ability to use college reserves and surpluses in future periods is likely to be restricted. One proposed solution to this is for cash-backed income and expenditure reserves and future surpluses to be transferred to an arms-length foundation or trust in order to take these resources outwith the consolidated budget boundary and therefore out of the college budget. There are risks to this in that to be independent and avoid consolidation the college must relinquish control of how the funds will be spent, however this is being considered widely by colleges throughout Scotland.

Outlook

Further and Higher Education SORP 2015 Exposure Draft Consultation

62. A new SORP incorporating International Financial Reporting Standards (IFRS) accounting has been developed in line with FRS 102 and is currently being consulted on (closing date for comments is 17 November 2013). This will be finalised in 2014 and is expected to apply to financial statements for 2015/16 onwards. The 2014/15 comparative figures and opening balances at 1 April 2014 will require restatement in the new format. Further guidance on the changes required is planned once the SORP has been finalised.

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.

Appendix I
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.