

University of the Highlands and Islands

Moray College

Annual Report on the 2012/13 audit



Prepared for the Board of Management of Moray 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. We have given an unqualified opinion on the financial statements of Moray College for the year ended 31 July 2013 and on the regularity of the financial transactions reflected in those financial statements.
2. We concluded that governance and internal controls were generally operating satisfactorily.
3. In 2012/13, the college reported a deficit of £324,000 representing -2.7% of income. As reported in the previous year, the college opted to use reserves to fund a planned deficit which largely arose from restructuring costs combined with reduced grant income. A reserve balance of £695,000 was held at 31 July 2013, an increase from £627,000 at 31 July 2012. The increase was due to a larger transfer from the revaluation reserve than the previous year.
4. The sector is currently going through significant change with the reclassification of colleges as public bodies from April 2014. Moray College is one of the partners within the University of the Highlands and Islands (UHI) and under regionalisation, each partner will be represented on the new UHI regional board. At the moment, Moray College is forecasting marginal deficits for the next two years and a break-even position by 2015/16.

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 of Moray College 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 on 19 November 2013.

Financial statements audit opinion & representations

8. We have given an unqualified opinion on the financial statements of Moray 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 attached at [Appendix A](#).
9. The main issue which arose from the audit related to the accounting basis for income received and expenditure incurred in relation to the Moray Life Sciences Centre. Expenditure incurred had been accounted for on a cash basis rather than an accruals basis. Similarly, grant funding received in respect of the project had been accounted for within deferred grants on a cash basis. This treatment did not comply with the requirements of the Statement of Recommended Practice 2007: accounting for further and higher education. The revised accounts were amended to reflect an accruals basis of accounting and consequently, assets under construction and creditors increased by of £378,931 and deferred grants and debtors increased by £315,655. The misstatements affected the Balance Sheet, Cash Flow Statement and associated Notes to the Financial Statements.
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 for Moray College and its neighbours to enter into discussions with the actuary to review the college's accounting treatment for pensions.
12. As part of the completion of our audit we sought written assurances from the Acting 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 Acting 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 Moray College is undertaken by the Audit Committee. The terms of reference for the committee is 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 Moray 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 is provided by Henderson Loggie. 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, Henderson Loggie provided their opinion that based on the internal audit work undertaken during the year, the college operated adequate and effective internal control systems and has proper arrangements in place to promote and secure value for money.
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 strategy, policy and risk register are kept under regular review by the Audit Committee to ensure that risks are adequately managed by the college. We also noted the important links drawn between the Risk Register and the college's strategic plan.

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, a scheme of delegation, a fraud policy and response plan, 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. These arrangements were strengthened during the year through increased staff awareness and refresher training.

Financial position

23. Moray College reported a deficit of £324,000 in respect of 2012/13 which represented -2.7% of income and held a reserve balance of £695,000 at 31 July 2013. Following a restructuring in a previous year, the college agreed to fund staff departures through early retirement from reserves. Despite the deficit position for 2012/13, this is an improving position due to the receipt of increased Higher Education funding during the year.
24. The outlook for the sector is generally one of continuing financial challenges and in addition, it is currently undergoing a period of significant change with the implementation of regionalisation and the reclassification of colleges as public bodies from April 2014. This will impact on the college's budgeting mechanisms and restrict its ability to build up financial reserves. Through the University of the Highlands and Islands partnership, the college is currently exploring opportunities for shared services with its partners which should provide efficiencies in the longer term. At present, the college is forecasting marginal deficits for the next two years and a break-even position by year 2015/16.

Acknowledgements

25. We would like to express our thanks to the staff of Moray 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 Moray College, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Moray 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 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 body's affairs 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, Senior Audit Manager
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Aberdeen AB10 1AB
18 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