



**HENDERSON LOGGIE**  
Chartered Accountants

## **North Highland College UHI**

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

**External Audit Report No: 2013/02**

**Draft Issued: 20 November 2013  
2<sup>nd</sup> Draft Issued: 10 December 2013  
Final Issued: 18 December 2013**



# Contents

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	Page
<b>1. Executive Summary</b>	<b>1 - 2</b>
<b>2. Introduction</b>	<b>3 - 4</b>
<b>3. Financial Statements</b>	<b>5 - 9</b>
<b>4. Corporate Governance</b>	<b>10 - 11</b>
<b>5. Performance</b>	<b>12 - 13</b>
<b>6. Outlook</b>	<b>14 - 15</b>
<b>Appendix I – Audited Bodies’ Responsibilities</b>	<b>16 - 17</b>
<b>Appendix II – Follow up of 2011/12 Annual Audit Report Recommendations</b>	<b>18 - 19</b>

## **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.



## Executive Summary

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### Financial Statements

- On 18 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.
- There were a small number of audit and accounting adjustments made to the financial statements which had the impact of increasing the deficit by £0.020 million. It was agreed not to amend the financial statements for a further three 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 also made to the financial statements to ensure compliance with the SORP and Accounts Direction and improve the overall presentation of the financial statements.
- The College's position is a deficit for the year of £0.306 million (2011/12 – surplus £0.375 million), and an Income and Expenditure Account balance of £1,703 million at 31 July 2013 (31/07/12 - £1.676 million).

### 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 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.
- 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 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.
- 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).



## Executive Summary

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### Outlook

- Under the Post-16 Education (Scotland) Act 2013, the University of the Highlands and Islands is the Regional Strategic Body for the Highlands and Islands, to which it is proposed that North Highland College will be one of the 'assigned' colleges. This requires an assignation order to be laid before Parliament, which is anticipated to take place by May 2014 although this proposal is currently out for consultation.
- UHI has established a Further Education Committee of Court (the Further Educational Regional Board) to carry out its functions as a Regional Strategic Body, in line with the recommendations of the UHI Working Group.
- The Office of National Statistics (ONS) has made a decision to reclassify incorporated colleges in Scotland as Central Government bodies from 1 April 2014. The position in the Highlands and Islands region is complicated by the fact that the University of the Highlands and Islands itself and a number of its other Academic Partner colleges are not caught by the reclassification and discussions are ongoing in this respect.
- 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.
- 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.



# Introduction

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## Background

1. 2012/13 was the second 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 2012/13 Annual Audit Plan issued on 11 June 2013 and considered and approved by the Audit Committee on 4 October 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; 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 retirees
  - compliance with the SORP on Accounting for Further and Higher Education.



## Introduction

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### 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.



## Financial Statements

### Audit Opinion

8. On 18 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 18 December 2013. No post balance sheet events were identified that required adjustment to be made to the financial statements or additional 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.
13. The College's corporate governance statement for 2012/13 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 2013.
14. Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.



# Financial Statements

## Audit and Accounting Adjustments and Confirmation

15. In Table 2 we draw attention to the adjustments identified during the course of the audit. None has a material effect on the Income and Expenditure Account however management has adjusted for these in the financial statements.

**Table 2: Audit adjustments – impact on the financial statements**

Description	I&E	I&E	B/Sheet	B/Sheet
	DR	CR	DR	CR
	£000	£000	£000	£000
1 Trade debtors			3	
Trade creditors				3
<i>Being reallocation of credit balances on the year end sales ledger.</i>				
2 Accruals			31	
Trade debtors				31
<i>Being reallocation of bad debt provision against trade debtors.</i>				
3 Other operating expenses	6			
Accruals				6
<i>Being late invoice accrual.</i>				
4 Other debtors			75	
Other creditors				75
<i>Being reallocation of Apprentices credit balance to creditors.</i>				
5 Revaluation reserve			31	
Income and expenditure reserve				31
<i>Being additional release of revaluation reserve.</i>				
6 Trade creditors			7	
VAT liability				7
<i>Being reallocation of VAT from trade creditors.</i>				
7 Other operating expenses	81			
SFC income		81		
<i>Being childcare income and expenditure included in I&amp;E in accordance with SFC guidance (comparatives also amended to include £63k).</i>				
8 Other operating expenses	14			
Land and buildings - additions				14
<i>Being expense of originally capitalised strategy costs.</i>				
<b>Total</b>	<b>101</b>	<b>81</b>	<b>147</b>	<b>167</b>
<b>Net impact on Income and Expenditure Account deficit</b>	<b>20</b>			





## Financial Statements

### Audit and Accounting Adjustments and Confirmation (Continued)

16. 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.
17. A number of potential audit adjustments were identified which management decided not to adjust. These have been listed in Table 3 below and the total of these items is below our materiality level. The effect of adjusting for these items would be to decrease the deficit for the year by £0.025 million.

**Table 3: Unadjusted audit differences – impact on the financial statements**

Description	I&E	I&E	B/Sheet	B/Sheet
	DR	CR	DR	CR
	£000	£000	£000	£000
1 Other operating expenses Bank <i>Being retranslation of foreign currency bank accounts.</i>		9	9	
2 Accruals Other operating expenses <i>Being difference identified on student support funds creditor workings.</i>		7	7	
3 Accrued income Other income <i>Being additional income identified.</i>		9	9	
<b>Total</b>	-	<b>25</b>	<b>25</b>	-

### Confirmations and Representations

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

### Financial Position

20. 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.'

## Financial Statements

### Financial Position (Continued)

21. 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. Figures for 2013/14 are for the eight month period to 31 March 2014.

**Table 4: Comparison of planned and actual financial results**

	2011/12 Actual £000	2012/13 Planned £000	2012/13 Actual £000	2013/14 Planned £000
Financial outturn Surplus/(deficit)	375	0	(306)	(34)
Income and expenditure reserves	1,676	1,314	1,703	1,703
Cash balances	1,480	1,540	2,373	2,013

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

22. Overall, College income in 2012/13 has decreased by £1.424 million (9.8%) over 2011/12 to £13,159 million. This is largely related to a reduction in SFC recurrent grants as West Highland College became a fundable body in its own right from 1 August 2012 meaning that its further education funding no longer comes through North Highland College. The College's expenditure has decreased £0.743 million (5.2%) over 2011/12 to £13.465 million. This mainly relates to the reduction in grant payments to West Highland College, which is partially off-set by increased staffing costs and depreciation.

#### Going Concern

23. The financial environment for 2012/13 continued to be challenging and College staff have again worked hard to achieve the 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.
24. 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 2012/13 financial statements, although the budget for 2013/14 is a small deficit before historical cost adjustment.

#### 2012/13 FTEs/SUMs outturn

25. The College's outturn against its 2012/13 FTEs/WSUMs targets (including ESF WSUMs) is shown in Table 5.

**Table 5: 2012/13 SUMs outturn**

	HE 2011/12	HE 2012/13	FE 2011/12	FE 2012/13
FTE / WSUMS target	448	475	31,549	25,217
FTE/WSUMS actual	456	388	33,041	26,228
Excess / (deficit)	8	(87)	1,492	1,011

Source: College records / audited SUMs returns



## Financial Statements

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### Financial Position (Continued)

26. The audit of the SUMs return for 2012/13 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.

#### **FRS 17 Retirement Benefits**

27. 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.

#### **Capital Income and Expenditure**

28. 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 Report that plans to obtain information from the College's professional advisors to identify major components within the College's 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. Information has been made available to the College during 2012/13 for both the Engineering, Technology & Energy Centre and the Centre for Energy & the Environment and has been applied to the financial statements. A corresponding release of deferred capital grants has been made and so there has been no impact on the Income and Expenditure Account in 2012/13. We have recommended that component accounting is considered further for the College's other buildings in future years.



## Corporate Governance

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### Corporate Governance

29. 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.
30. 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
31. 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.
32. 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

33. 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.
34. Following our interim visit in June 2013, 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

35. 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 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.
36. The annual internal audit report issued in June 2013 did not identify any issues that affect our audit conclusions although highlighted weaknesses in relation to the lack of a comprehensive asset inventory and documented schedules of cyclical and planned maintenance. These issues are currently being addressed by College management.



## Corporate Governance

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### Systems of Internal Control (Continued)

#### Risk Management

37. Risk management is important for the development and on-going review of systems of internal control.
38. The College has a Risk Management Policy and Strategy and risk management procedures are in place that are actively monitored and reported on. This includes an on-going process for identifying, evaluating and managing its significant risks.
39. Risk management is seen as a Board matter, with the key strategic risks being identified and reported to the Board. We noted that there are 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

40. During 2012/13 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.
41. 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.
42. No frauds were identified during 2012/13 or in the period since 31 July 2013 to the date of this report.
43. 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.
44. The arrangements for maintaining standards of conduct and the prevention and detection of corruption are considered to be appropriate.

## Performance

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### Performance Audit

#### Introduction

45. 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.
46. No mandatory performance audit studies were identified by Audit Scotland for the College during 2012/13.

#### National Performance Reports

47. The 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 regional boards. In particular the report recommends that 'existing colleges and 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.'
48. 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.
49. 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 performance arrangements

50. Audit Scotland reports are considered by management upon receipt and thereafter brought to the attention of the Board committee responsible, if appropriate.
51. 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.



## Performance

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### Performance Audit (Continued)

#### **Education Scotland Review**

52. We are required by Audit Scotland's Code of Audit Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.
  
53. Education Scotland published a report on the education provision of the College in its annual engagement review issued in June 2013. The report noted that progress had been made in addressing the two main action points raised by Education Scotland following its full review of the College in February 2012 although some actions had still to be implemented and work was ongoing in this respect.

## Outlook

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### 2013/14 and beyond

#### **Post-16 Education (Scotland) Act 2013**

54. The Post-16 Education (Scotland) Act 2013 makes provision: about the support for, and the governance of, further and higher education institutions, including provision for the regionalisation of colleges; for reviews of how further and higher education is provided; for sharing information about young people's involvement in education and training; and for connected purposes. The Bill for this Act of the Scottish Parliament was passed by the Parliament on 26 June 2013 and received Royal Assent on 7 August 2013.
55. Under the Act, the University of the Highlands and Islands is the Regional Strategic Body for the Highlands and Islands, to which it is proposed that North Highland College will be one of the 'assigned' colleges. This requires an assignation order to be laid before Parliament, which is anticipated to take place by May 2014 although this proposal is currently out for consultation.
56. UHI has established a Further Education Committee of Court (the Further Educational Regional Board) to carry out its functions as a Regional Strategic Body, in line with the recommendations of the UHI Working Group.
57. Discussions are ongoing in relation to the full implications of the Post-16 Education (Scotland) Act 2013 for the Highlands and Islands region.
58. 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.

#### **Regional Outcome Agreement**

59. A Regional Outcome Agreement with the SFC has been finalised and the regional allocation of funding agreed for 2013/14.
60. The College's allocations for academic year 2013/14 are teaching grant of £6.020 million (an increase of £0.105 million or 1.8% on 2011/12), transitional funding of £0.400 million (unchanged from 2012/13) and capital funding of £0.351 million (an increase of £0.079 million or 29.0% on 2011/12). It should be noted however that the College's WSUMs target has increased by 1,691 WSUMs (6.7%) on 2012/13 to 26,826 (17,491 to be delivered by North Highland College and 9,335 to be delivered by Argyll College).
61. The level of recurrent grant budgeted from UHI for the 2013/14 academic year remains unchanged at £1.366 million.
62. In June 2013 the Director of Finance presented a draft budget for 2013/14 to the Finance and General Purposes Committee for recommendation to the Board of Management. This showed a break-even position.



## Outlook

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### 2013/14 and beyond (Continued)

#### ONS Reclassification

63. 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. The position in the Highlands and Islands region is further complicated by the fact that the University of the Highlands and Islands itself and a number of its other Academic Partner colleges are not caught by the reclassification.
64. 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.
65. 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.
66. Discussions are ongoing in relation to the full implications of the ONS reclassification for the Highlands and Islands region.

#### Further and Higher Education SORP 2015 Exposure Draft Consultation

67. 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.

#### Waste

68. The Waste (Scotland) Regulations 2012 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 regulation.



# Appendix I

## Audited Bodies' Responsibilities

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### 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

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### **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 Follow Up of 2011/12 Annual Audit Report Recommendations

Recommendation	Grade	Management Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date	Update at November 2013
<b>Financial Position</b> <b>Provisions</b> 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	Provisions from last year which did not meet the criteria have now been released to the Income and Expenditure Account.



## Appendix II Follow Up of 2011/12 Annual Audit Report Recommendations

Recommendation	Grade	Management Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date	Update at November 2013
<p><b>Capital Income and Expenditure</b></p> <p><b>R2</b> 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.</p>	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	<p>A breakdown for both ETEC and CFEE, regarding cost analysis and components of projects, has been provided by the Valuer which the College has used to componentise fixed assets and depreciate accordingly.</p> <p><b>Recommendation</b> – this should be considered for the other College buildings in future years.</p> <p><b>Management comment</b> – this recommendation was discussed at the November 2013 Audit Committee meeting and the Director of Finance undertook to further investigate the componentisation of the other College buildings.</p>

**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.