

# University of the Highlands and Islands

## Moray College

### Annual Report on the 2013/14 audit



Prepared for the Board of Management of Moray College and the Auditor General for Scotland  
December 2014

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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 2013/14 Audit

1. Moray College is one of the partners within the University of the Highlands and Islands (UHI) and each partner is represented on the UHI regional board.
2. We have given an unqualified opinion on the financial statements of Moray College for the financial year ended 31 July 2014 and on the regularity of the financial transactions reflected in those financial statements.
3. We concluded that governance and internal controls were generally operating satisfactorily.
4. In 2013/14 the college reported a deficit of £350k after the transfer of £300k to the Scottish Colleges Foundation. Excluding the transfer, the deficit of £50k represents 0.4% of income.

## 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 March 2014, 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 10 December 2014.

## Financial statements audit opinion & representations

8. We have given an unqualified opinion on the financial statements of Moray College for the financial year ended 31 July 2014 and on the regularity of the financial transactions reflected in those financial statements. The proposed auditor's report is attached at [Appendix A](#).
9. Following the audit, there were no adjustments to the figures in the financial statements. In addition, there were no significant unadjusted misstatements identified during the course of our audit.

10. A significant event in the 2013/14 financial statements was the revaluation of fixed assets. The Statement of Recommended Practice (the SORP) 2007 covering accounting in Further and Higher Education requires colleges with a policy of revaluing their tangible fixed assets to carry out a full valuation every five years, and an interim valuation in the third year. As the last full valuation was carried out in 2009, a revaluation of the college's estate was carried out by J & E Shepherd, Chartered Surveyors in August 2014 and reflected the valuation of assets at 31 July 2014. The impact of the valuation has largely affected the Balance Sheet with an increase of £1,504k in fixed assets and the revaluation reserve. We have taken assurance from the valuer in respect of the assumptions used and valuations calculated which is in accordance with ISA500, using the work of an expert. Overall, we are satisfied that the revaluation has been reflected in the financial statements in accordance with the SORP.
11. We also drew attention to the college's accounting treatment for pension costs. The college accounts for pension contributions to the Local Government Pension Scheme as if it were a defined contribution scheme. This means that the liability to pay for future pensions of current staff is not recognised on the balance sheet as required by FRS 17. Historically, the actuary only identified the assets and liabilities for the north east of Scotland colleges on an aggregate basis which meant the colleges received a pooled valuation and shared a common contribution rate.
12. College mergers have however provided the opportunity for colleges to re-consider and streamline the accounting treatment for pension costs and where possible, this has enabled steps to be taken to achieve full compliance with FRS17. Following discussion with the Director of Finance, we have agreed that the college will discuss existing practices with the actuary with a view to moving towards full implementation of the pension accounting requirements of FRS 17 by 31 July 2015 or as soon as possible thereafter.
13. Subsequent to the year end, a ruling by the European Court of Justice in the case of *Locke v British Gas Trading Company* reached the opinion that the calculation of holiday pay could be based on variable payments in addition to basic pay, for example contractual overtime or bonus payments. Furthermore, it may be possible for employees to make retrospective claims and for former employees to submit claims. This is a recent development which is likely to have a significant impact across the private and public sectors and until organisations can give due consideration to the impact, it has been considered a potential contingent liability within financial statements.
14. In respect of Moray College, the majority of staff do not have contractual rights to receive variable payments, for example, overtime and for those that do, their holiday pay already reflects overtime payments. While the college should consider the impact of the ruling on former employees as well as current employees, there is no immediate concern to suggest the accounts should disclose a contingent liability. A specific confirmation from management in relation to this matter has been included in the draft letter of representation.

15. As part of the completion of our audit we sought written assurances from the Principal on aspects of the accounts and judgements and estimates made. A draft letter of representation under International Standard of Auditing (ISA) 580 was provided to the Principal and this should be signed and returned prior to the independent auditor's opinion being certified.

## Governance and internal control systems

16. 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.
17. 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.
18. 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

19. 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).
20. 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 2013/14. 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

21. 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 their assessment of risk and the activities of internal audit.
22. The internal audit function for the college is provided by Henderson Loggie. Generally, we seek to rely on the work of internal audit wherever possible. In their annual report for 2013/14, Henderson Loggie provided their opinion that based on internal audit work undertaken, the college has adequate and effective arrangements for risk management, control and governance.

23. 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

24. The college's risk management strategy, policy and strategic risk register are kept under regular review by the Audit Committee to ensure that risks are adequately identified and managed. Risks are now being considered within the wider context of the UHI partnership. Internal audit carried out a review of risk management during the year and highlighted the work being done by the college to standardise the preparation and use of risk registers across departments. While there is more work to be done, satisfactory processes were in place during the year.

## Prevention and detection of fraud and irregularities

25. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In terms of the arrangements in place, 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.

## Arm's-length foundation

26. By bringing further education colleges within the central government framework, certain restrictions were put on aspects of existing financial management arrangements, including:
- the ability to generate and retain income and reserves
  - use of existing reserves
  - access to capital funding and commercial borrowing.
27. In order to protect existing reserves and minimise the impact of reclassification on colleges' finances, a solution was reached with the Scottish Funding Council in the form of arm's-length foundations. Across the further education sector, colleges have either established their own foundation as arm's-length vehicles or have opted to join a national foundation, to which balances agreed by college boards were required to be transferred by 31 March 2014.
28. Moray College became a participating college in the Scottish Colleges Foundation (the Foundation) which was established to advance and promote further and higher education. In common with other participating colleges, Moray College has a sub-fund in the Foundation to which donations can be made and to which the college can apply for support towards projects of a substantial nature. The arrangements between the college and the Foundation are set out in a Memorandum of Understanding and a Donation Agreement. Having reviewed the formal documentation, we were satisfied that the sub-fund held for the college would not be required to be consolidated within the college's financial statements.

29. The college approved the transfer of funds to the Foundation and by 31 March 2014, a total amount of £300k had been successfully transferred.

## Performance

### Severance payments

30. At 31 July 2014, the financial statements included £32.5k in respect of exit costs for 6 staff, a significant reduction in comparison with the previous year. Payments were made in accordance with the college's approved practices for dealing with voluntary severance applications and cases were approved by the principal.

### Shared services

31. Moray College, alongside its UHI partners, formed a regional partnership board and through this process, they have pursued options for shared services, for example, ICT services. Plans were being progressed to set up a company to which ICT staff would transfer and provide services to the partnership. As a result UHI Shared Services Ltd was formed. However, a number of uncertainties around the project could not be resolved which led to its cancellation. The company is therefore dormant and is likely to be dissolved.

## Financial position

32. In 2013/14 the college reported a deficit of £350k after the transfer of £300k to the Scottish Colleges Foundation. Excluding the transfer, the deficit of £50k represents 0.4% of income.
33. Over the past 12 months, the college has experienced the implementation of regionalisation, the potential for providing shared services and the reclassification of colleges as public bodies from April 2014. The outlook for the sector is generally one of continuing financial challenges within a context of continuing change.

## Acknowledgements

34. We would like to express our thanks to the staff of Moray College for their help and assistance during the 2013/14 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 period ended 31 July 2014 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 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.

### **Generic 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 and to identify any

information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of Moray College as at 31 July 2014 and of its deficit for the period 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 period for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

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

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

I have nothing to report in respect of these matters.

Anne MacDonald CA  
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Marischal College, Broad Street  
Aberdeen AB10 1AB

Xx December 2014

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