AUDIT SCOTLAND

University of the Highlands and Islands

Moray College

Report on the 2014/15 Audit

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

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This report has been prepared for the use of Moray College UHI and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Board of Management. The information in this report may be used for the Auditor General's annual overview report on further education audits published on its website and presented to the Public Audit Committee of the Scottish Parliament.

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Key messages

Audit of financial statements	• The independent auditor's report provides an unqualified opinion for the 2014/15 financial statements of Moray College UHI. • With the application of the Government Financial Reporting Manual (FReM), the accounts include a remuneration report for the first time. Salary information has been disclosed but consent was withheld by individuals to allow the disclosure of their pension information. This practice is permitted by the Accounts Direction.
Financial management and sustainability	• During the year the college needed to urgently draw down additional funding of £538k over the level anticipated in its monthly cash flow to meet operational requirements. This highlighted a weakness in the college's management accounts and forecasts. Prompt steps were taken to control expenditure including refresher training for all budget holders. There is acknowledgement that it will be challenging for the college to achieve its 2015/16 resource requirements. • The college reported a deficit of £802k in respect of the 2014/15 financial statements. Almost half of this amount was expected and arose as a result of an accounting deficit due to the treatment of funding for non-cash depreciation. In addition, there was a significant impact on the outturn following a change in the calculation of the college's unfunded early retirement provision.
Governance	• In general, the college had a good standard of internal controls operating during the year. Internal audit reported that there were adequate and effective arrangements for risk management, control and governance. In response to the need for a cash advance, the college took prompt action to review its budgetary control processes but needs to provide more signposting and narrative in its management accounts. College practices met many aspects of the best practice set out in the 2014 code of good governance for Scotland's colleges.

Performance	• UHI have been considering a shared service for IT for some time but there are a number of difficulties still to resolve. In addition, a finance systems convergence project is being implemented across the region.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Moray College UHI. The report is divided into sections which reflect our public sector audit model.

2. The management of Moray College UHI is responsible for:
   - preparing financial statements which give a true and fair view
   - implementing appropriate internal control systems and maintaining proper accounting records
   - putting in place proper arrangements for the conduct of its affairs
   - ensuring that the financial position is soundly based.

3. Our responsibility, as the external auditor of Moray College UHI, is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. **Appendix I** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Moray College UHI understands its risks and has arrangements in place to manage these risks. The board and senior management team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

7. We are grateful for the cooperation and assistance we received during the course of the audit.

Audit of the 2014/15 financial statements

Audit opinion	• We have completed our audit and issued an unqualified independent auditor's opinion in respect of the financial statements.
Going concern	• The financial statements of the college have been prepared on a going concern basis. We have examined the college's financial plans for the next 12 months and discussed the financial position with both the chair of the board of management and the acting principal. While a small surplus is forecast for 2015/16, the board recognises that there are challenges ahead. There is a risk that planned income will not be realised and in addition, there is currently an absence of senior financial expertise to lead the college through these financial difficulties. We are assured by the actions taken by the acting principal and the ongoing support of UHI and while there are uncertainties ahead, there are sufficient assurances to confirm that it is appropriate for the college to continue to be considered as a going concern.
Other information	• We review and report on other information published with the financial statements, including the operating and financial review by the board of management, statement of corporate governance and internal control and the remuneration report. We have nothing to report in respect of these statements.

Submission of financial statements for audit

8. From 1 April 2014, further education colleges were reclassified as public bodies and, consequently were brought within the central government framework. This means that for budgeting and funding purposes, the college is required to meet financial targets on an annual basis to 31 March but financial statements continue to be prepared on the basis of the academic year ending 31 July.

9. From 2014/15, while colleges are required to use the Government Financial Reporting Manual (FReM), the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP) is still in place and largely takes precedence over the FReM if there is a conflicting matter.

10. The introduction of reclassification and the FReM has impacted on the college's accounts in the following ways:

- colleges must break even in each Scottish Government financial year
- the ability to use accumulated reserves to fund future spending is no longer possible
- grant in aid can only be drawn down when needed
- mechanisms to access capital funding and commercial borrowing have changed
- for the first time, colleges are required to include a remuneration report within their annual accounts.

11. We received the unaudited financial statements on 1 October 2015. At that point, the draft accounts excluded a remuneration report. Revised accounts were received in the intervening weeks with a final version of the accounts being received on 3 December 2015.

Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 17 March 2015.

13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. As such, the agreed fee for the 2014/15 audit which was set out in the Annual Audit Plan remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out the audit work we proposed to undertake to secure appropriate levels of assurance.

15. Our audit involved 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.

Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. We summarised our approach to materiality in our 2014/15 Annual Audit Plan. Based on our knowledge and understanding of Moray College UHI we set our planning materiality at £135k (1% of gross expenditure). We report all misstatements greater than £5k. Performance materiality was calculated at £80k to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that they remained appropriate and no change was required to our approach.

Evaluation of misstatements

20. All significant misstatements identified during the audit have been amended in the financial statements. The impact of these was to reduce the deficit on the Income and Expenditure Account by £213k and reduce Net Assets by 353k.

21. In addition we identified a number of presentational adjustments within the financial statements during the course of our audit. These were discussed with the Finance team who agreed to amend the unaudited financial statements accordingly.

Significant findings from the audit

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
    - The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
    - Significant difficulties encountered during the audit.
    - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
    - Written representations requested by the auditor.
    - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

23. During the course of the audit we identified the following significant issues that were communicated to the audit committee.

Issue	Resolution
1. Remuneration Report In accordance with FReM, a remuneration report disclosing pay and pension information for the college's management team was required for the first time in 2014/15. In addition to salary and pension benefit information, there was a requirement to provide accrued pension information and cash equivalent transfer values (CETVs). A remuneration report had not been prepared when the financial statements were initially submitted for audit but one is now included in the audited accounts. The remuneration report correctly disclosed salary information but members of the management team opted not to disclose details of their pension interests, accrued pension benefits and CETVs. The Accounts Direction requires individuals to authorise the inclusion of their salary information in this report and where consent is withheld, the fact that the salary information has not been included should be disclosed within the remuneration report.	A note was added to the remuneration report explaining that consent had been withheld in respect of pension disclosures. As this meets the requirements of the Accounts Direction, there is no impact on the audit opinion in respect of this matter.
2. Unfunded early retirement provision The provision for unfunded early retirements should be calculated on the basis of mortality tables using an interest rate recommended by the Scottish Funding Council (SFC). The rate applied by the college was previously 2.5% which had not been in line with the percentage recommended by SFC for a couple of years. A prior year adjustment has been included in the accounts to reflect calculations based on recommended interest rates which will bring the calculations back into line with SFC guidance. As a result, an amendment of £378k was made to the 2013/14 figures.	The revised accounts were amended to reflect these changes.

Issue	Resolution
3. Holiday pay accrual The Accounts Direction required colleges to recognise an accrual for the untaken element at 31 July 2015 of short-term accumulating paid absences, in accordance with *IAS 19 Employee benefits*. Paid absences are periods during which an employee does not provide services to the employer, but benefits continue to be paid. Accumulating absences known as the untaken holiday accrual are those that are carried forward and used in future periods if the current period entitlement is not used in full, e.g. annual leave and flexitime balances. Due to an oversight, this matter had not been considered in preparing the draft accounts. The accrual was subsequently calculated and amounted to £121k. This item also required a prior year adjustment of £117k to reflect a comparative figure for 2013/14.	The revised accounts have been amended to reflect this matter.
4. Discretionary fee waiver The college awards discounts on tuition fees to eligible students. In book-keeping terms, fees that have been waived are reallocated to a special debtor account, and then cancelled. The draft accounts incorrectly included £39k as a debtor for discretionary fee waivers as the cancellation entry had not been processed prior to preparing the draft accounts.	The revised accounts have been amended to reflect this matter.
5. Accruals Some accrued costs from the previous year-end were included in the draft accounts. When certain balances were investigated, it was found that the payment arrangements had changed in the financial year and the accrual was no longer required. The amount by which creditors and other operating expenses were reduced was £34k.	The revised accounts have been amended to reflect this matter.

Issue	Resolution
6. Deferred income Included in creditors in the balance sheet was a net balance of £197k which represented a balance on a deferred income clearing account. Within this balance was the creditor of £368k due to UHI in respect of advance funding leaving a debit balance of £171k. At the date of the audit committee, we were unclear what this balance represented and were therefore unable to determine if it was an appropriate debtor balance at 31 July 2015. Since the audit committee, the finance and audit teams have done much work to understand the content of the balance. The account was used as a control account to record grant income for capital projects and the associated expenditure. For example, as grant income in respect of the life sciences building was received, it was credited to this account. Expenditure on the project was debited and if there was unspent income, the control account provided a way to carry it forward to the next year. Over time, the account became muddled as it was used to absorb general property maintenance expenditure in excess of the capital and maintenance grants available for the year. Going forward, ledger coding arrangements should be amended so that income and expenditure with different conditions of grant are recorded and monitored separately, there is a clear audit trail in respect of each grant awarded, and that expenditure is contained within approved budgets. ***Refer Action Plan, Recommendation 1***	After other corrections, the overall position on the account was £182k (Dr) representing expenditure incurred and £97k (Cr) for deferred income. As the expenditure has been accumulating for several years, it was unclear whether the college was expecting more income to cover it or whether this was additional expenditure which had been incurred above funding received. It was therefore agreed to write off the net amount (£182k less £97k) of £85k in the income and expenditure account.

Issue	Resolution
7. **Accounting 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. College mergers 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. We have been discussing the possibility of the college implementing this change on a voluntary basis for a couple of years now. From 2015/16, the college will be required to implement the change to comply with the new SORP and this will require comparative figures to be provided. ***Refer Action Plan, Recommendation 2***	For implementation in 2015/16 financial statements.

Future accounting and auditing developments

24. A new Further and Higher Education SORP was approved in March 2014. While 2015/16 will be the first reporting year, comparative figures for 2014/15 and a restated opening balance sheet at 1 August 2014 will be required.

25. This SORP will bring college accounts into line with International Financial Reporting Standards, and consequently there will be significant changes in the primary statements with the introduction of a statement of comprehensive income and expenditure, changes to reserves and funds and a statement of financial position (i.e. a balance sheet).

Financial management and sustainability

Financial management

26. In this section we comment on the college's financial outcomes and assess the financial management arrangements. On reclassification, the University of the Highlands and Islands (UHI) became the Regional Strategic Body for the further education colleges operating within its geographical boundaries. Consequently, Moray College UHI was assigned to UHI and now receives its funding via the UHI Further Education Regional Board (FERB) rather than direct from the SFC as it had done in the past.

27. The FERB was established under the Further and Higher Education (Scotland) Act 2005, as amended by the Post-16 Education (Scotland) Act 2013, to support a regional approach to the planning and funding of college provision.

Financial outcomes

28. Moray College reported a deficit of £802k at 31 July 2015. This was in part a technical accounting deficit due to non cash depreciation, but was also the result of an amendment made to the accounts to calculate the college's unfunded early retirement provision using SFC recommended interest rates, rather than a fixed rate of 2.5% as had been the previous practice.

29. As part of the government's budgeting and accounting requirements, the college is required to provide a monthly cash flow and deliver against resource requirements. Included in this year's funding, colleges received cash funding in respect of depreciation which is a non-cash item. The cash had to be spent by 31 March which put the college into an accounting deficit position once net depreciation was taken into account. As this was an expected outcome and in line with SFC guidance, there was no impact on the audit opinion.

30. Following the reclassification of colleges as central government bodies by the Office of National Statistics in April 2014, colleges are required to manage their expenditure within the Scottish Government financial budgeting and reporting arrangements. Colleges therefore, have to control their annual expenditure so that it does not exceed pre-set limits. This also means that colleges should not draw down funds in advance of need.

31. In June 2015, the college found itself with insufficient cash to meet routine outgoings and needed to draw down £568k cash in advance from UHI. By 31 July 2015, £200k has been repaid leaving a balance of £368k which the college subsequently cleared in October 2015.

32. The acting principal promptly commissioned an independent review to determine why this situation had arisen. In addition, a review of financial information was undertaken and a complete refresh of budget holder processes, reporting arrangements and training was carried out.

33. The outcome of the investigation has been shared with the board of management and corrective action has been taken to strengthen financial reporting arrangements. In simple terms, college income for 2014/15 was lower than had been planned due to less higher education funding than expected, however plans and forecasts were not updated to reflect this change when student numbers were reviewed in autumn 2014. Spending therefore continued at its previous level and had not been reduced in response to the lower level of income. Consequently, by June there was insufficient funds to meet obligations up to 31 July 2015, the date of the accounting year end.

34. In July 2014, the college drew down £503k in advance to ensure there was sufficient cash to cover the first 2 weeks of the new financial year. Perhaps this was an early indication that the college was struggling with the operation of the new financial arrangements.

35. Prompt action was taken by the college in summer 2015 to identify further cash and this included a successful application to the arms-length foundation for £233k to fund an ongoing project which the college had intended to fund itself from existing resources. In addition, the disposal of a property for £60k is being finalised and there is a review of ongoing spending to identify savings.

36. At the time of the internal investigation and the audit of the accounts, the Director of Finance was absent from work through long term illness. The former principal had also recently left the college. The post had been filled in August 2014 and vacated by mutual consent in March 2015.

37. Following a review of the management accounts which had been submitted to the Finance and General Purpose Committee and the Board of Management in respect of the 3 month period to 31 October 2014 and the 6 month period to 31 January 2015, we noted that there was no narrative within the report alerting board and committee members to the potential problems that lay ahead.

38. The reports, which were in the format of a range of tabular tables and included a range of charts, showed a deterioration in the forecasted outcome for the year ending 31 July 2015. For example, at period 3, the figures forecasted a deficit of £36k and at period 6, the year end position was estimated to be a deficit of £267k. The income figures showed a fall of around £300k in higher education income. A narrative explaining the figures would have been helpful and it would also provide the opportunity for any compensating factors to be set out.

Refer Action Plan, Recommendation 3

Financial sustainability

39. At 31 March 2015, the college met its resource requirement targets with the Scottish Government. While advance funding was requested in the 2015/16 funding year, it is anticipated that this will even out and the acting principal expects financial targets to be met at 31 March 2016.

40. Financial sustainability concerns whether the college has the financial resources to meet current and future operational needs. Looking ahead, the college needs to ensure that its spend is

affordable. Although additional income is expected in 2015/16, in the longer term, the college needs to reduce its spending.

41. From a review of recent FERB minutes, we noted that the strategic body is taking steps to strengthen its arrangements for monitoring the financial sustainability of its academic partners as it has recognised the need to have early warning of any financial difficulties being experienced. This is likely to extend to a reasonableness review of budgetary assumptions.

42. Representatives of the college and UHI are scheduled to meet in the near future to review the relationship between the regional body and Moray College, as one of its assigned colleges, and their respective handling of financial matters over the last year since the implementation of reclassification. It is anticipated that learning points will be identified as a result of recent events which can be used to strengthen operational arrangements going forward.

43. We have examined the college's financial plans for the next 12 months and discussed the financial position with both the chair of the board of management and the acting principal. While a small surplus is forecast for 2015/16, there are challenges ahead. There are risks that planned income will not be realised and in addition, there is currently an absence of senior financial expertise to lead the college through these financial difficulties. We are assured by the actions taken by the acting principal and the ongoing support of UHI and while there are uncertainties ahead, there are sufficient assurances to confirm that it is appropriate for the college to continue to be considered as a going concern.

Financial management arrangements

44. As auditors, we need to consider whether colleges have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the finance officer has sufficient status within the college to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the college
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- board members provide a good level of challenge and question budget holders on significant variances.

45. Based on our observations during the course of the 2014/15 audit, we drew the following conclusions:

- We reviewed the college's Governance Manual which includes standing orders, scheme of delegation and code of conduct, and the Financial Regulations. We concluded that both documents were comprehensive, current and recently reviewed.
- The Director of Finance is a member of the college's senior management team and attended board of management, finance and audit committees. In his absence since June 2015, the acting principal has provided this support. While the Director of Finance had appropriate status, the management accounts we reviewed did not contain sufficient sign posting

and commentary to alert board members to the challenges ahead.

Refer Action Plan, Recommendation 3

- With the director's absence and the retirement of another member of staff, the finance team have been stretched in recent months. A new accountant was appointed in the summer and another recent appointment has been made to increase capacity in taking forward current finance projects e.g. the finance systems convergence project across UHI. While the senior management team are now reviewing monthly financial information, we continue to have concerns about the absence of senior financial expertise at this challenging time.

Refer Action Plan, Recommendation 4

Governance

46. The board of management is responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

Governance and internal control systems

47. 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.

48. 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.

49. 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.

50. In general, it is a requirement of a college's funding that they sign a Financial Memorandum with the SFC. With regard to Moray College UHI, the current arrangement requires UHI to agree a Financial Memorandum with SFC and in turn, UHI have an agreement with each of the partner colleges. The financial memorandum was refreshed by SFC during the year and the new terms and conditions were applied from December 2014. Moray College in common with other partners has yet to finalise its memorandum with UHI as there are ongoing discussions between the bodies regarding the additional conditions placed on colleges by UHI. We are satisfied that the previous terms and conditions agreed between SFC and the college continue to operate.

Audit Committee

51. 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 were in line with the UK Corporate Governance Code 2010 (the Code).

52. The Code and the Accounts Direction require colleges to include a governance statement within their financial statements. The 2014/15 statement confirmed that in the opinion of the Board of Management, the college complied with the Code throughout the year ended 31 July 2015.

53. One of the standard conditions within the financial memorandum is that colleges are expected to comply with the principles of good governance as set out in the 2014 Code of Good Governance for Scotland's Colleges. Internal audit completed a review of the new

code in May 2015 and concluded that the college was meeting many aspects of the best practice set out in the code. We reviewed the governance statement and requested that additional information be included confirming the college's adoption of the new code. We also requested that reference be made to action taken to strengthen budgetary control processes following the need to request a cash advance. Otherwise we have confirmed that the content of the governance statement meets the requirements of the Accounts Direction and reflects our understanding of Moray College.

Internal control

54. 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.

55. 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 2014/15, we concluded that reliance could be placed on their work. With the exception of the financial management issue which led to the cash advance requirement, internal audit concluded that, based on work they had undertaken during the year, the college had adequate and effective arrangements for risk management, control and governance.

Risk Management

56. The college's risk management strategy, processes and risk register were kept under regular review by the audit committee to ensure that risks were adequately managed by the college.

Prevention and detection of fraud and irregularities

57. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Audit Committee, we sought confirmation from those charged with governance of any instances thereof that had arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has also been included in the letter of representation signed by the acting principal.

58. In terms of the arrangements in place to help prevent and detect fraud and other irregularity, we noted for example, standing orders, a prevention of fraud policy, whistle blowing policy 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

59. By bringing further education colleges within the central government framework, certain restrictions were put on aspects of previous financial management arrangements, including:

- the ability to generate and retain income and reserves
- use of existing reserves
- access to capital funding and commercial borrowing.

60. In order to protect existing reserves at 31 March 2014 and minimise the impact of reclassification on colleges' finances, a solution was reached with the SFC 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.

61. 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.

Performance

62. A college should have systems and processes to ensure it can demonstrate that it is delivering value for money by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Shared services

63. Moray College, alongside its UHI partners, and the regional strategic body have been pursuing options for shared services, for example, ICT services. Plans were being progressed to set up a company to which ICT staff would transfer from 1 December 2015 and provide services to the partnership. As a result UHI Shared Services Ltd was formed. A number of uncertainties around the project were being resolved, however the level of funding expected from SFC to take this project forward has now been reduced. A decision has therefore been taken within UHI to delay immediate plans and to take time to ensure they have considered the right solution.

Budget and cash flow returns

64. Since reclassification, colleges are required to submit monthly cash flow forecast returns to the SFC. These set out the cash requirement for the next month and therefore the allocation of grant the college wishes to draw down. Over the period since April 2014, the format, timing and information content required in these returns has changed several times making it difficult for colleges to settle into a routine for completion and submission. This has had resource implications for the college and has added to the pressures being experienced by the finance team.

Appendix I - Action plan

No/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
1/23 (item 6)	**Deferred income** The deferred income control account has become muddled making it difficult to determine if year end balances are valid. ***Risk: an absence of monitoring may mean that expenditure is not matched against the correct income stream leading to a potential clawback of unspent grant and /or expenditure has been incurred beyond the approved budget level without an identified income source.*** Recommendation: income and expenditure with different conditions of grant should be recorded and monitored separately to ensure there is a clear audit trail and that expenditure is contained within approved limits.	Agreed We have changed our processes internally to make sure this is accounted for correctly by allocating the income to the balance sheet then releasing to the I&E when the expenditure happens to match.	Assistant Accountant	Achieved

No/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
2/23 (item 7)	**Accounting for pension costs** Pension contributions in respect of staff who are members of the Local Government Pension Scheme are accounted for as if it were a defined contribution scheme. Discussions have been held with the college for a couple of years now to encourage a move to accounting for pension costs in line with FRS17. So far there has been no change in the accounting treatment. ***Risk: the opinion on the financial statements could be qualified if the college fails to comply with accounting standards. This will be the case from 1 April 2015 when the new SORP is implemented.*** Recommendation: early discussions are held with the North East Scotland Pension Fund to put plans in place to comply with the new SORP and to gather the necessary information for comparative figures.	Agreed We will request discussions with the North East Scotland Pension Fund in the new year and seek any other external support required.	Director of Finance	Start in February 2016 for 15/16 accounts

No/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
3/38 and 45	**Management accounts** Management accounts contain tabular tables of figures with no signposting and little narrative highlighting the key points the director wishes to bring to board members' attention. ***Risk: there is a risk that the figures are not sufficiently challenged by board members leading to unexpected adverse outcomes which could have been avoided.*** Recommendation: the format and content of management accounts is revised to ensure there is sufficient commentary for the lay reader to understand the financial position and to provide an early alert if that is required.	Agreed Our Finance and General Purposes Committee recognised and appreciated the commentary that was provided when they met in December 2015.	Assistant Accountant	Achieved
4/45	**Senior finance expertise** With the director of finance absent through ill health, there is a lack of financial expertise at a strategic level to steer the board members through the current financial difficulties. ***Risk: board members and senior management are not sufficiently supported when difficult financial decisions need to be made.*** Recommendation: discussions should be held with other academic partners within UHI to determine if a shared arrangement can be put in place, even as a temporary measure, to ensure that there is appropriate financial support and guidance.	This is being carefully monitored by both the Board and the senior management team. Additional qualified expertise has been recruited though an agency however the situation will be reviewed again in early January 2016 dependent upon the health of the Director of Finance.	Acting Principal	Under review