Scott-Moncrieff
business advisers and accountants

Inverness College

Annual report on the 2015/16 audit
to the Board of Management and the Auditor General for Scotland

December 2016

Contents

Summary

Financial Statements

The financial statements for the year ended 31 July 2016 were approved by the Board on 20 December 2016.

We reported unqualified audit opinions on the financial statements, the regularity of transactions and on other prescribed matters. There were no matters which we were required to report by exception.

Financial management

The College reported a deficit of £1.496million for the year to 31 July 2016.

We found that the College has adequate arrangements in place for financial management and the use of resources.

Overall, the College has seen large increase in income (£7.001million) and expenditure (£7.635million) during 2015/16. This is principally due to the accounting required for the new NPD campus, and the College's legacy estate.

Financial sustainability

The College continues to have a deficit balance on reserves driven by a large pension liability. In 2015/16 the deficit on reserves increased by £2.99million due to the operating deficit and a significant increase in the actuarially assessed pension liability.

The College's revenue budget, as presented to the Board of Management in June 2016, forecast a break even position for 2016/17. We consider that the College has adequate arrangements in place with regard to financial sustainability.

Governance and transparency

In our opinion, the College's corporate governance arrangements are adequate and appropriate.

- **An unqualified opinion on:**
  - **the financial statements;**
  - **the regularity of transactions; and**
  - **other prescribed matters.**
- **A deficit of £1.496million for the year.**
- **The College has adequate arrangements in place for financial management and the use of resources.**
- **A break even position forecast for 2016/17.**
- **Adequate arrangements in place with regard to financial sustainability.**
- **The College has appropriate governance arrangements in place.**
- **The College has proper arrangements in place to promote and secure value for money.**

We have reviewed the College's governance statement and consider it to be consistent with the Scottish Funding Council's guidance and our understanding of the College's governance arrangements based on the information gathered as part of our normal audit work.

Value for money

The College confirmed that it has appropriate arrangements in place to promote and secure value for money. The College monitors a range of Key Performance Indicators (KPIs) as part of its performance management arrangements and reports that it exceeded student activity targets during the financial year.

Conclusion

This report concludes the audit of Inverness College for the year to 31 July 2016. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards

Scott-Moncrieff
December 2016

1

Introduction

Introduction

1. This report summarises the findings from our 2015/16 audit of Inverness College. The scope of the audit was set out in our external audit plan which was presented to the Audit Committee at the outset of the audit.

2. The external audit strategy and plan summarised four key audit issues for 2015/16:

   - FRS102 restatement.
   - NPD New campus / Estates developments.
   - Revenue recognition.
   - Management override.

   This report includes our findings in relation to these key audit issues.

3. The main elements of our work in 2015/16 have been:

   - An audit of the financial statements, including a review of the College's governance statement and the remuneration and staff report;
   - A review of governance arrangements, internal controls and financial systems; and
   - Completion of a minimum dataset of information that is submitted to Audit Scotland.

4. As part of our audit, we have taken cognisance of the work of the College's internal audit service and Audit Scotland.

5. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs).

6. The College is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

7. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider the wider implications before deciding appropriate actions. The recommendations have been given a grading to help the College assess the significance and prioritise the actions required.

8. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report 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.

9. This report is addressed to both Inverness College and the Auditor General for Scotland and will be published on Audit Scotland's website.

10. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

2

Financial statements

Financial statements

11. The College's financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the College and the auditor in relation to the financial statements are outlined in Appendix 3.

12. In this section we summarise the findings from our audit of the 2015/16 financial statements.

Overall conclusion

An unqualified audit opinion on the financial statements and regularity

13. The financial statements for the year ended 31 July 2016 were approved by the Board on 20 December 2016. We reported within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity; and
- an unqualified audit opinion on other prescribed matters.

14. We were also satisfied that there were no matters which we were required to report by exception.

15. Our audit opinion was based on the approval of the financial statements and the signing of a letter of representation. The letter confirms that there were no subsequent events that required amendment to the financial statements.

Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

1. FRS102 restatement

In March 2013, the Financial Reporting Council (FRC) issued FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". FRS102 is a single set of accounting standards that replaces UK GAAP. A new FE/HE SORP has also been developed, published in March 2014, which supplements FRS102 and sets out specific requirements and guidance for the FE/HE sector.

FE establishments are required to adopt the new SORP for accounting periods starting on or after 1 January 2015, with the comparative balance sheet and opening comparatives requiring restatement.

The transition to FRS102 brings with it potentially significant implications to the financial statements of bodies adopting the standard, although not all will be directly relevant to the College.

Summarised from 2015/16 External Audit Plan

17. We have reviewed the College's restatement exercise to ensure that transactions and balances have been appropriately restated and we consider the exercise undertaken has materially addressed all requirements of FRS102 and the new SORP. All material transitional adjustments have been subject to audit testing and no issues were identified with the College's workings. We will have also ensured that disclosures, including stated accounting policies, as included within the 2015/16 financial statements are transparent and are in accordance with FRS102 and new SORP requirements

2. NPD New campus / Estates developments

Practical completion on the new campus at Beechwood was achieved on 7 August 2015, in time for the start of the 2015/16 academic year. The project was delivered, in collaboration with the Scottish Futures Trust, using the new Non-Profit Distributing (NPD) funding model. Under the NPD model, the College will repay capital construction costs over a 25 year period, via a unitary charge. £11 million of costs associated with the project were incurred directly by the College during the development phase and were met through a mix of College and SFC funding. This mechanism for funding the development is new, technically complex and there is a lack of detailed guidance currently available on the specific accounting implications.

The estates development is part of a strategy which will involve disposal of the College sites at Longman Road and Midmills. There has been a substantial write down of the value of these sites in previous years.

There remains some uncertainty over the exact accounting treatment to be adopted for these estates developments in 2015/16 and the implications for the assets recognised historically by the College.

Summarised from 2015/16 External Audit Plan

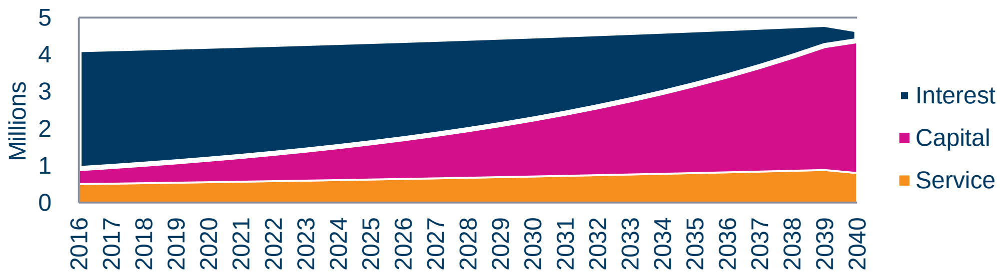
18. We reviewed the College's NPD accounting and disclosures against the requirements of the new SORP and FRS102 and against the underlying contracts. We found that the College has accounted for the new campus appropriately. However, we do raise one recommendation for management in relation to the ongoing maintenance of the financial model which underpins the College's accounting.

Management action plan point 1

19. The new campus became operational shortly after the beginning of the 2015/16 financial year. Under the NDP contract the supplier has built, and will maintain, the College's new Inverness Campus and the Forestry School at Balloch. The contract in place runs until 2040 at which point ownership of the facilities will transfer to the College. The arrangement falls to be recognised as a service concession arrangement under the new SORP, and FRS102, and as a result the College has recognised the new facilities in the 2015/16 balance sheet.

20. The NPD mechanism for funding such developments is new and technically complex. There is little past precedent set in the sector for this type of development and the arrangement is further complicated as £10.267million of costs associated with the project were incurred directly by the College during the development phase and were met through a mix of College and SFC funding. In practice, accounting for such service concession arrangements is consistent with that for a finance lease. This requires the College to split any contractual payments made between payments for services (such as facilities management) and payments towards the use of the assets themselves (split between capital repayments and interest costs).

Estimated composition of the annual service payment



21. The new campuses were independently valued at £51.5million when they became operational. Using that valuation, and taking cognisance of the directly incurred costs already recognised, the College initially reflected a finance lease liability within the balance sheet of £38.891million. In total, the annual service payments expected over the 25 year contract amount to £115.231million, being made up of service costs of £20.005million, and repayments of capital elements of £95.226million, split between lease repayments and an imputed interest charge within the financial statements. The chart above shows how the composition of the annuals service payment is estimated to vary over the life of the contract, as disclosed in the financial statements.

Estimated remaining lease payments at 31 July 2016 of £110.027million excluding VAT		
Lease repayments £38.472million	Imputed interest £52.273million	Service costs £19.2972million

22. We have also considered the treatment adopted for all other estates developments and ensured that all aspects are consistent with the requirements of the new SORP and the underlying FRS102. We carried out substantive testing of asset additions, the College's depreciation charges and review of impairments. We consider the College's accounting treatment of these items to be reasonable.

4. Revenue recognition

Under ISA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements" there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the College could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported revenue position

Summarised from 2015/16 External Audit Plan

23. We did not identify any evidence of fraud in relation to revenue recognition from the testing performed throughout our audit work. We have evaluated each material revenue stream, considered the College's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied. We performed detailed testing of each material income stream.

5. Management Override

In any organisation, there is a risk that management have the ability to process transactions or make adjustments to the financial records outside of the normal financial control processes. Such transactions could lead to a material misstatement in the financial statements. We treat this as a presumed risk area in accordance with ISA 240.

Summarised from 2015/16 External Audit Plan

24. We did not identify any evidence of management override through our audit testing. We reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. We performed a detailed review of the journals raised and posted throughout the year and at the year-end to identify any unusual transactions or activity. We also reviewed the controls in place over the journal process for any potential weaknesses that could give rise to management override.

Financial statements preparation

25. Due to mitigating circumstances, the agreed timetable for providing a complete set of draft accounts needed to be amended. We remain grateful to the College's staff for their assistance and support during the course of the audit.

Audit differences

26. We identified a number of immaterial disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements.

27. In addition, the following adjustments were made through the audit process which we consider to be material:

- The financial statements presented for audit did not include the required disclosure of FRS102 transitional adjustments to the prior year figures. This was rectified in the final statements.
- Additional remuneration report disclosures were made through the audit process as information became available to the College.

Board representations

28. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements.

29. We identified three unadjusted differences during our audit work. These unadjusted items are not regarded as material and are included in our representation letter and show in Appendix 4 of this report.

Regularity

30. We did not identify any instance of concern regarding the legality of transactions or events.

31. We planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the financial statements. Our audit procedures included:

- reviewing minutes of relevant meetings;
- enquiring of senior management and the College's solicitors the position in relation to litigation, claims and assessments; and
- performing detailed testing of transactions and balances.

Going concern and subsequent events

32. Auditing standards require us to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about the College's ability to continue as a going concern which need to be disclosed in the financial statements.

33. The term "subsequent events" is used to refer to events occurring between the year-end date of the financial statements and the date of the auditor's report. International Standard on Auditing (UK & Ireland) 560: "Subsequent events" requires us to assess all such matters before signing our audit report.

34. In order to gain assurance on these matters our work has included:

- reviewing bank facilities;
- reviewing budget and cash flow projections;
- reviewing minutes of post balance sheet board meetings;
- enquiries of senior management and the College's solicitors;
- consideration of future funding; and
- performing sample testing of post balance sheet transactions.

35. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate. We did not identify any subsequent events which require amendments or disclosures to be made in the financial statements.

Corporate Governance

36. The financial statements must include a statement covering the responsibilities of the governing body in relation to corporate governance. The statement must indicate how the College has complied with good practice in this area, including the 2014 Code of Good Governance for Scotland's Colleges ('Good Governance Code 2014').

37. The College's governance statement states the College complied with the Good Governance Code 2014 throughout the year ended 31 July 2016. We reviewed the governance statement by:

- reviewing the statement against SFC and Audit Scotland guidance; and
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

38. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and is not inconsistent with information gathered during the course of our normal audit work.

Qualitative aspects of accounting practices and financial reporting

39. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies and we consider these to be appropriate to the College.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions and the extent that these transactions are separately disclosed in the financial statements.	From the testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the performance report and accounts or material inconsistencies with the financial statements.	The performance report contains no material misstatements or inconsistencies with the financial statements.
Any significant financial statement disclosures to bring to your attention.	There is no significant financial statement disclosures that we consider should be brought to your attention. All disclosures

Qualitative aspect considered	Audit conclusion
	made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	While there were no significant difficulties encountered during the audit we did not receive a complete set of draft accounts in line with the agreed timeframe.

3

Financial management

Financial management

40. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the College's responsibility to conduct its financial affairs in a proper manner.

Overall conclusion

41. We found that the College has adequate arrangements in place for financial management and the use of resources. Our conclusion has been based on a review of the College's financial performance and financial position. Each of these elements is discussed in more detail below.

Financial performance

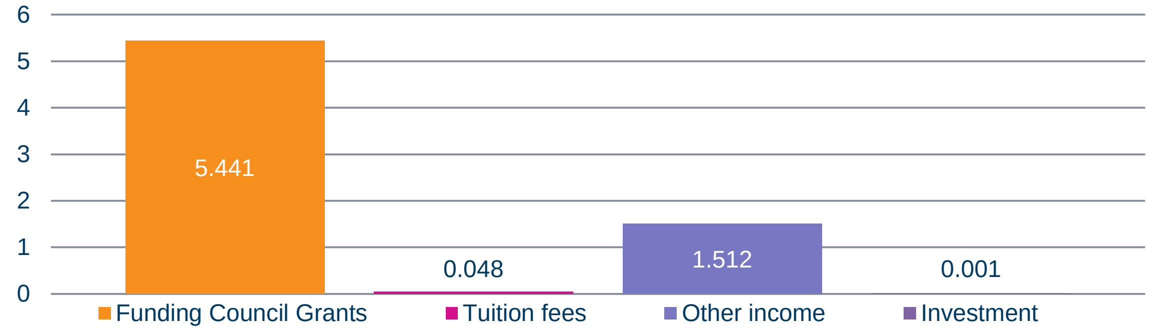
42. The College reported a deficit of £1.496million for the year to 31 July 2016:

College's assessment of the reported deficit	
Reported deficit	(£1.496m)
Impact of finance lease interest accounting on SoCI.	£1.079m
Non-cash pension fund adjustments.	£0.7m
'Underlying' surplus.	**£0.283m**

Income has increased by £6.975million

43. The College has seen a large increase in income from £17.659million in 2014/15 to £24.660million in 2015/16. This £7.001million increase is principally due to additional SFC funding and an increase in 'other' income. As shown below:

Year on year increases / (decreases) on major income streams (£million)



44. SFC funding has risen by £5.441million to £18.480million in 2015/16. This increase is principally due to:

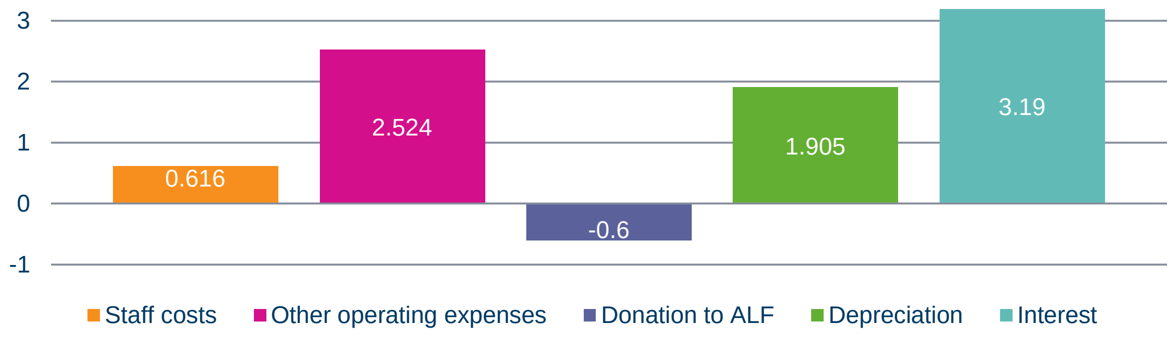
- New funding this year totalling £4.595million towards the revenue costs of the new NPD campus.
- A £0.436million release from deferred capital grants in respect of impairment of SFC funded assets.

45. 'Other' income has increased by £1.512 million compared to 2014/15, mainly due to non-recurring funding being received from the Scottish College's Foundation of £0.503million and increased income from catering and hospitality following the move to the new campus.

Expenditure has increased by £7.635million

46. Overall the College has seen an increase in expenditure of £7.635million, from £18.521million in 2014/15 to £26.156million in 2015/16. Again, the increase is principally due to the recognition of costs related to the NPD contract as well as the recognition of impairments on the value of the College's legacy estate. Further details are provided below:

Year on year increases / (decreases) on major expenditure streams (£million)



47. Staff costs have increased by £0.616million due to a larger establishment (29 more full time equivalent staff) and incremental uplifts in wages, NI and pensions contribution.

48. 'Other' operating expenses have increased by £2.524million principally due to:

- services costs related to the new NPD campus;
- higher catering supplies costs linked to increased activity;
- Additional revenue expenditure on academic supplies and equipment; and
- Fees for external training providers being higher than the prior year.

49. Interest costs are significantly higher during the year due to the accounting entry required to apportion part of the NPD unitary charge to interest costs (£3.215m) and the accounting entry required in relation to the movement on defined benefit pension scheme liabilities (£0.026million).

Financial position

The College has a net deficit position on reserves

50. The College continues to have a deficit balance on reserves. In 2015/16 the deficit increased by £2.990million due to the operating deficit (£1.496million) and a significant increase in the actuarially assessed pension liability (£1.494million). Unlike many other Colleges, the reserves position is not supported by a revaluation reserve following write down of the legacy estate in previous years.

51. Significant capital additions have been recognised in 2015/16. In addition to the directly incurred costs already recognised, the NPD campus development reflected an increase in land and buildings value of £38.891million. New equipment to a value of £4.116million has also been recognised during the year.

52. As at 31 July 2016 the College had a cash balance of £3.344million. That position was £1.46million lower than the balance held as at 31 July 2015. The scale of the balance being held reflects that the College has accrued capital equipment expenditure of £2.14million, funded mainly through capital grants, which is expected to settle during 2016/17.

53. The College's creditor balances have increased significantly since 2014/15. The total creditors recognised as at 31 July 2016 was £56.232million, £40.394million higher than in 2014/15. The principal reasons for the increase were:

- An increase in deferred income of £2.389million due to the deferral of capital grant funding in respect of directly incurred equipment additions for the new campus. These grants are expected to be applied early in 2016/17.
- The finance lease liability of £38.472million in respect of the new campus which was not recognised in 2014/15.

54. The pension liability due to the Highland Council Pension Fund, as assessed by Hymans Robertson, has increased to £9.232million, from £7.053million.

Systems of internal control

55. During our audit work we have considered the College's accounting systems and internal controls. We have found the College's systems of internal financial control to be adequate and operating effectively.

4

Financial sustainability

Financial sustainability

56. Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services or the way in which they should be delivered.

Overall conclusion

57. We consider that the College continues to have adequate arrangements in place with regard to financial sustainability.

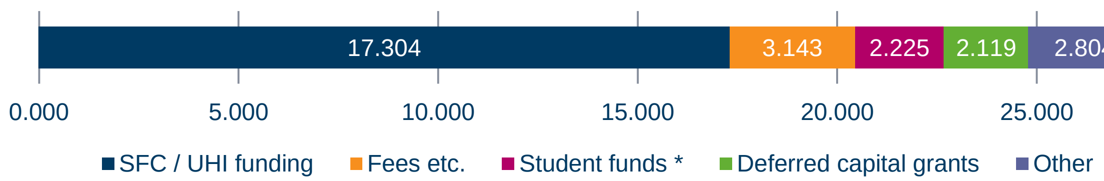
Financial forecasts

A break even position has been forecast for 2016/17

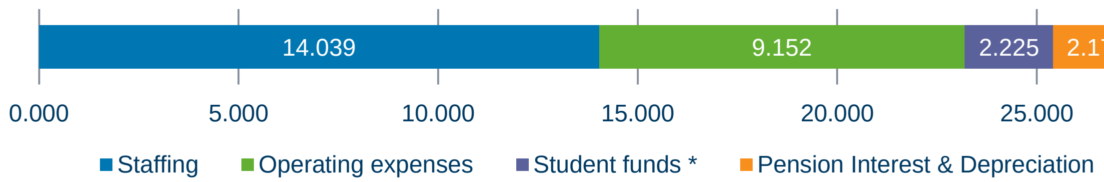
58. The College's revenue budget, as presented to the Board of Management in June 2016, forecast a break even position for 2015/16.

59. The College's forecast position reflects income and expenditure of £27.594million for 2016/17, the major elements of which are shown below.

Income of £27.594million is forecast for 2016/17



£27.594million expenditure is forecast for 2016/17



** Student funds income and expenditure includes funds accounted for on an agency basis not recognised in the financial statements*

A small rise in FE activity target for 2016/17

60. The College's FE funding allocation for 2016/17 is based on achieving 29,689 credits. This is only 472 more credits that the 2015/16 target and is 1,916 credits lower than actually delivered in 2015/16.

61. The College also has a higher education (HE) activity target of 1,622 full time equivalents (FTE), 8% higher than the FTE achieved in 2015/16.

Financial planning

62. In November 2013, the Accounts Commission and Auditor General for Scotland published *Scotland's public sector workforce*. The report highlighted a number of key messages on workforce changes across Scotland and made a number of recommendations.

63. As part of our 2015/16 audit, we undertook a follow up review to help understand the extent to which the College is implementing the recommendations within the national report. A summary of our findings is shown below:

Theme	Audit findings
Planning	• While the College does not have a separate documented workforce plan, it does take a considered approach to workforce planning as evidenced through Curriculum Plans, Staffing Projections, Timetables, and a set Staff Structure (based on predicted income through Student income).
Service Delivery	• The College monitors and reports on staff turnover, establishment, and trends. • There is an established set of policies in place in relation to voluntary severance and early departures, however voluntary severance was last offered in 2011.
Partnership working	• The College is assigned to the UHI Regional Strategic Body and works closely with the University of the Highlands and Islands and its regional partners.
Challenge and Scrutiny	• The Human Resources Committee, Board of Management, Finance and General Purposes Committee and/or Learning and Teaching Committee would receive reports on changes to workforce/staffing arrangements as appropriate. • While the College does not have a separate documented workforce plan(s) it does follow standard practice in the sector.

Long term financial strategies

64. In August 2016 Audit Scotland published the national report Scotland's Colleges 2016. The report recommends that colleges should prepare long term financial strategies (a minimum five years). The report suggests plans should be supported by medium term financial plans and workforce plans.

65. The College's financial strategy was developed in 2013 and covers the period to 2020. The College is aware of the recommendations within the national report and plans reflect them within a refreshed 5 year financial strategy with supporting financial and workforce plans. We endorse the College's planned approach in this area.

Management action plan point 2

5

Governance and transparency

Governance and transparency

66. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. The College is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Overall conclusion

67. The College has appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:

- risk management;
- internal audit;
- the prevention and detection of fraud and other irregularities; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Governance arrangements

There has been significant change in the Board of Management during the year

68. During 2015/16 seven independent members left the Board of Management. Four members, including the chair, left the College at the end of their term of appointment on 31 December 2015. A further three members resigned during the year.

69. Seven new independent members joined the Board of Management during 2015/16: four joined in January 2016 and three joined in June 2016. Additionally three members came to the end of their terms at 31 July 2016 and were reappointed. The new Chair, an existing member, was appointed from January 2016.

70. The College has an established board member induction programme in place which was followed for the new appointees.

71. Induction was carried out through two half day sessions for the January 2016 appointments, and one full day session for those appointed in June 2016. The induction gives a background to the College and the role along with sessions facilitated by senior management on:

- Curriculum, Learning and Teaching;
- College Finances and the Estates and ICT;
- Business Development;
- Human Resources plus Equality and Diversity and Health and Safety; and
- Audit including Risk Management.

Corporate governance arrangements are appropriate

72. The Board conducts a self- evaluation exercise annually. Evaluations are also conducted by each standing committee and on each of the Board and Committee chairs during 2015/16. The outputs from these assessments inform an action plan for improvements.

73. The College's governance statement confirms the College complied with the Good Governance Code 2014 throughout the year ended 31 July 2016.

Risk management

74. Risk management is important to the establishment and regular review of systems of internal control. The College's financial statements outline the principal risks and uncertainties of the College and the College's response. We have found that the College has adequate risk management arrangements in place to monitor and help mitigate key strategic risks.

Internal audit

75. The internal audit service is a key component of the College's internal control framework. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource.

76. Henderson Loggie provided the internal audit service in 2015/16 and the internal audit annual report confirms that the service is independent of the College and complies with the Public Sector Internal Audit Standards.

77. Henderson Loggie concluded in the internal audit annual report that the College has adequate and effective arrangements for risk management, control and governance. We have considered Henderson Loggie's findings within our audit process.

Prevention and detection of fraud and irregularity

78. The Board of Management is responsible for preventing and detecting fraud and other irregularities. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, our audit was planned and conducted so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

79. Our work has included a consideration of the College's arrangements for the prevention and detection of fraud and irregularity. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

Standards of conduct

80. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate and in line with our expectations. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct.

6

Value for money

Value for money

81. Value for money is achieved though the optimal use of resources to achieve the intended outcomes. The College had a duty to apply its resources economically, efficiently and effectively.

Overall conclusion

82. The College has confirmed that proper arrangements are in place to promote and secure value for money.

Arrangements are in place to promote and secure value for money

83. The Financial Memorandum between the College and the Scottish Funding Council (SFC), states the College must:

- have a strategy for reviewing systematically management's arrangements for securing value for money; and
- obtain a comprehensive appraisal of management's arrangements for achieving value for money as part of its internal audit arrangements.

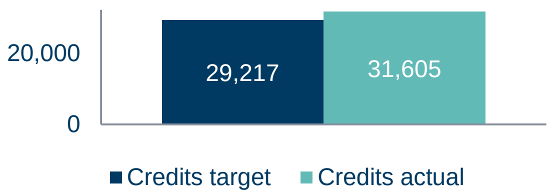
84. The Board of Management has delegated the responsibility for reviewing and monitoring the arrangements in place to achieve value for money to the Audit committee.

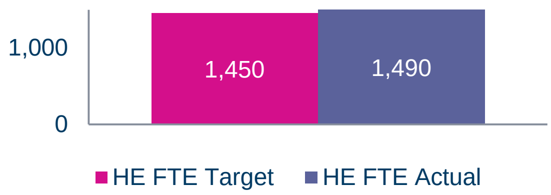
Internal audit opinion on value for money

85. Henderson Loggie concluded in the internal audit annual report that the College has proper arrangements in place to promote and secure value for money.

Performance

86. The College achieved its targets for both credits (FE provision) and FTEs (HE provision) in 2015/16, as shown in the diagrams below:





87. The College reports student attainment as part of its performance monitoring arrangements. The table opposite shows that there has been a small increase in successful completion rates of Full time FE, Full time HE and part time FE students compared to last year. There was a large percentage increase in successful completion rates for part time HE students.

KPIs	Successful completions		
	2015/16	2014/15	Trend
FE Full time	66%	63%	3%
FE Part time	81%	80%	1%
HE Full time	80%	76%	4%
HE Part time	84%	58%	26%

7

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during the course of our audit. The action plan details the officer responsible for implementing each recommendation and an implementation date. The College should assess each recommendation for wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work, and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements. Communication in this report of matters arising from the audit of the annual report and accounts 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.

Action plan grading structure

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The grading structure for our recommendations is as follows:

Grade	Explanation	Recommendations
Grade 5	Very high risk exposure - Major concerns requiring Board attention.	
Grade 4	High risk exposure - Material observations requiring senior management attention.	
Grade 3	Moderate risk exposure - Significant observations requiring management attention.	2
Grade 2	Limited risk exposure - Minor observations requiring management attention	
Grade 1	Efficiency / housekeeping point.	

Recommendations raised in 2015/16

1	NPD accounting model
Observation	We found that the College has accounted for the new campus appropriately. However, the financial model used to apportion the annual service payment between capital and interest elements incorrectly recognises an element of inflationary uplift in the capital repayment. While this has not had a material effect on the 2015/16 financial statements the aggregate effect of the potential misstatement could result in more significant misstatements in future periods.
Risk and recommendation	Accounting entries calculated by the financial model may not adequately reflect the proper apportionment between the finance lease repayments (which affects the balance sheet of the College) and the imputed interest charge (which affects the Statement of Comprehensive Income). The College should review the financial model adopted to ensure that the figures produced fully reflect the requirements of the new SORP and FRS102. **Grade 3**
Management response	Accepted. **Responsible officer:** Director of Corporate Services **Completion Date:** 31 July 2017

2	Long term financial planning
Observation	In August 2016 Audit Scotland published the national report Scotland's Colleges 2016. The report recommends that colleges should prepare long term financial strategies (a minimum five years). The report suggests plans should be supported by medium term financial plans and workforce plans. The College's financial strategy was developed in 2013 and covers the period to 2020. The College is aware of the recommendations within the national report and plans reflect them within a refreshed 5 year financial strategy with supporting financial and workforce plans. We endorse the College's planned approach in this area.
Risk and recommendation	Without a refreshed approach to long term financial planning the College may not be able to adequately prepare for, and address, future financial pressures, such as national collective pay bargaining, estate maintenance and student support funding. We endorse the College's planned approach to developing a long term financial strategy, with supporting financial and workforce plans, in line with the best practice identified within the Audit Scotland published the national report Scotland's Colleges 2016. **Grade 3**
Management response	Accepted. **Responsible officer:** Director of Corporate Services / Principal **Completion Date:** 31 July 2017

Appendix 2: Scope of the audit

An overview of the scope of our audit

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and ISAs.

Our external audit plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks. No additional significant risks were identified after the planning stage during our audit work this year.

The significant risks that had the greatest effect on our audit, our response to those risks and our findings from the work performed are set out within *our assessment of risks of material misstatement* within section two of this report. The audit response to each significant risk was designed in the context of the financial statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

Our standard audit approach is based on performing a review of the significant accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality.

Our application of materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report.

The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. Our initial assessment of materiality for the financial statements, as presented in the external audit strategy and plan, was £350,000. We revised materiality for the financial statements at the final accounts audit to £425,000.

Our assessment of materiality was set with reference to a range of benchmarks. We consider the application of income to be the principal considerations for the users of the accounts when assessing the performance of the College.

Performance materiality

We set a performance materiality for each area of work which was based on a risk assessment for the area and percentage application of overall materiality. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting at planning	Weighting at final audit
High	40% £140,000	40% £170,000
Medium	55% £192,500	55% £233,750
Low	70% £245,000	70% £297,500

Reporting

We have reported all misstatements identified through our audit that fell into one of the following categories:

- Corrected misstatements over £425,000.
- Uncorrected misstatements with a value in excess of £15,000.
- Other misstatements below the £15,000 threshold that we believe warrant reporting on qualitative grounds.

Appendix 3: Respective responsibilities

Management responsibilities

Within the terms and conditions of the financial memorandum between the SFC and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year. In preparing the financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 2005, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

Auditor responsibilities

Public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the financial statements and associated documents such as the governance statement, but also providing a view, where appropriate, on matters such as propriety, performance and the use of resources.

Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

Specifically in relation to the financial statements, we are required to audit them in accordance with ISAs and to give: an opinion on the financial statements, an opinion on regularity and an opinion on other prescribed matters. We are also required to report certain matters by exception. Each of these responsibilities is described below

Opinion on financial statement

We audit the financial statements and give an opinion on whether they:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the college's affairs as at 31 July 2016 and of its surplus 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 SFC, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on regularity

We confirm whether, in our 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

We express an opinion on whether:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are also required to report if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the governance statement does not comply with SFC requirements.

Confirmation of auditor independence

Ethical Standard 1: Integrity, objectivity and independence, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Board of Management or senior management that may reasonably be thought to bear on our objectivity and independence.
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Board of Management other than the audit of the College's 2015/16 EMA return.

Audit fee

The fee for the external audit proposed at the outset, and reported in our external audit plan, was £16,780. No change has been made to that audit fee during the audit process. The fee for the audit of the college's 2015/16 EMA return was £1,230.

Appendix 4: Unadjusted differences

Board representations

We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified three unadjusted differences during our audit work. These differences are not considered to be material to the financial statements, either individually or in aggregate. Through discussion with the Principal and the Financial Services Manager the decision was taken not to adjust the financial statements. These unadjusted items are included in our representation letter and shown in the table below.

Unadjusted differences		**SoCI**		**Balance sheet**	
No	**Narrative**	**DR £**	**CR £**	**DR £**	**CR £**
1	Fixed assets – accumulated depreciation			19,436	
	Expenditure – depreciation		19,436		
	Being the potential restatement of depreciation charges				
2	NPD liability < 1 year			229,420	
	NPD interest costs		115,644		
	NPD liability > 1 year				113,776
	Being the potential restatement of finance lease charges				
3	Accruals			186,000	
	Expenditure		186,000		
	Being the potential restatement of the holiday pay accrual				
	Aggregate impact on the SoCI		**321,080**		

Scott-Moncrieff
business advisers and accountants