Moray College

Year ended 31 July 2017
Annual Audit Report

20 December 2017

Building a better
working world

Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Moray College (the College) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the College and is made available to the Auditor General and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive summary

Purpose of this report

In accordance with section 21 of the Public Finance and Accountability (Scotland) Act 2000, the Auditor General for Scotland appointed EY as the external auditor of Moray College (the College) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both the members of the College and the Auditor General for Scotland, and presented to both College management and those charged with governance, identified as being the Board and the College's Audit Committee. It will be published on Audit Scotland's website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the College. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Scope and responsibilities

The Code sets out the responsibilities of both the College and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the Audit Committee on 23 May 2017. We summarise the responsibilities of the College in Appendix A.

Our Annual Audit Plan also provided you with an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £125,000 and a Tolerable Error of £62,500. We reassessed this using the actual year-end figures, to confirm that the materiality remained appropriate for the audit. No adjustment was made to materiality amounts communicated in our Annual Audit Plan. The threshold for reporting audit differences was £6,250.

Status of the audit and audit opinion

We have issued an unqualified opinion that the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council (SFC) of the state of the affairs of the College as at 31 July 2017 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Key contacts

Stephen Reid, Partner
sreid2@uk.ey.com

Keith Macpherson, Head of GPS Audit, Scotland
kmacpherson@uk.ey.com

Rob Jones, Audit Manager
rjones9@uk.ey.com

Ernst & Young LLP, Atria One, 144 Morrison Street, Edinburgh, EH3 8EB

Acknowledgement

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.

Accounting and audit matters – our reporting on the College's financial statements

Preparation of financial statements

- While draft financial statements were provided during the audit process, the performance report, accountability report, remuneration report and the corporate governance statement were not provided until after the onsite audit work was completed.
- The draft financial statements presented for audit required amendments to comply with the SORP disclosure requirements and the Scottish Funding Council (SFC) accounts direction.
- Audit adjustments above our stated audit differences reporting threshold were identified as a result of the audit process, all of which were adjusted by management.
- A number of delays were experienced in the overall conduct of the audit. We have agreed to work with management to support delivery of a more efficient financial reporting process in 2017/18.

Significant risks

- The audit process identified two adjustments over revenue and expenditure recognition during the financial year. The net impact of these adjustments was to reduce the deficit by £3,000. With these differences adjusted, we completed our audit procedures satisfactorily.
- We have not identified any material weaknesses in the design and implementation of control arrangements tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Other inherent risks

- We are satisfied that management has adequate arrangements to ensure that property, plant and equipment is appropriately valued within the financial statements.
- The LGPS defined pension scheme liabilities were estimated using actuarial assumptions which we consider to be reasonable. We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Other matters and reporting requirements

- Our testing on opening balances was completed satisfactorily. We have no matters to bring to your attention in respect of our work on the qualitative aspects of the financial statements.
- In respect of our responsibility to report on the regularity of transactions, we have concluded that 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.
- In respect of our 'Opinions on other prescribed matters', which includes the Performance Report, the auditable part of the remuneration report and the Governance Statement we have concluded that our opinion is unqualified. We have not identified any other matters on which we are required to report by exception.

Wider scope audit dimensions – our judgements and conclusions on the College's arrangements

Financial management

- The College reported a deficit of £463,000 for the year (2015/16: deficit of £876,000). The main reason for the reduction in the reported deficit is increased grant and tuition fee income resulting from increased student numbers in the year. There has also been a slight reduction in core recurring staff costs, although this was offset in 2016/17 by increases in the pension costs attributable to staff costs and the voluntary severance costs in the year. The College reported that the underlying operating position was a £412,000 surplus (2015/16: deficit of £151,000). In addition, the College reported a £416,000 increase in cash, reducing the amount owed to the Regional Strategic Body by £358,000 to £300,000 at 31 July 2017. This represents an improved position.
- Financial management within the College as it operated for the majority of the financial year required improvement. Finance team resources were stretched during the year. The finance team is now at full capacity and so will be able to take steps to effect this improvement, however, this should remain an area of focus for management and the Board to ensure that identified areas for improvement continue to be addressed.

Financial sustainability

- The College's financial recovery plan outlined progress to date and future plans to deliver savings. The 2016/17 financial position showed a deficit of £463,000 against a financial recovery plan forecast deficit of £606,000. The College has prepared its five-year financial forecasts 2017 to 2022 and submitted these to the Scottish Funding Council. Over the life of the Financial Recovery Plan, these show a continually improving picture for the underlying position of the College, in particular working to eliminate reliance on short terms advances from the Regional Strategic Body to support the College's cash flow.
- The assumptions included in the forecast are outlined in the College's Financial Forecast Return. In our view, while the assumptions around income do not appear unreasonable, there is significant sensitivity in the College's forecasts to the achievement of the forecast increase in all income streams between now and 2022. We will continue to monitor this situation during the course of our appointment.

Governance and transparency

- While progress has been made by the Board and management in improving a number of aspects of the College's governance arrangements, significant work continues to be required during 2017/18 to ensure that governance arrangements are robust and fully in line with guidance and best practice.

Value for Money

- The College has recently updated its new strategic plan which runs to 2020 and aligns with the UHI strategic plan and its core values. The five strategic aims of the College are now based on: curriculum; learning and teaching; organisational culture; partnership and sustainability.
- As management and the Board recognise, further work is required to ensure the effective alignment between the strategic, operational and financial recovery plans, together with improving the effectiveness of monitoring and performance reporting against robust KPIs.

Appendices

We have confirmed our independence to act as auditor of the College.

Financial statements and accounting

1. Financial statements and accounting

The College's annual financial statements enables the Board to demonstrate accountability for its resources and its performance in the use of those resources during the year. They are prepared in accordance with applicable law and UK Generally Accepted Accounting Practice.

Audit opinion

In respect of the financial statements, we report on the truth and fairness in accordance with the requirements of the Further and Higher Education (Scotland) 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended), and United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The detailed form and content of our audit report, plus the requirements underpinning the report, are contained in the Audit Scotland guidance at http://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2017-7_further_education.pdf (Appendix 1).

We have issued an unqualified opinion based on the satisfactory completion of our work.

Financial statements preparation

As part of our oversight of the Board's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared predominantly by the finance team to support the audit.

The financial statements were prepared in accordance with the 2015 Statement of Recommended Practice for Further and Higher Education (SORP) alongside the Government Financial Reporting Manual (FReM) 2016/17.

2016/17 was a challenging year for the finance team, with a lack of continuity of staffing for a number of reasons. The director of finance took up post in June 2017, with an acting up arrangement in place for most of the year, with that individual themselves going off on maternity leave in May 2017. Traditionally we would undertake a planning and interim visit in advance of the financial year end to perform walkthroughs of key processes and controls, and to perform year to date testing, as appropriate. Given the vacancies in management and finance during the summer we forwent this process. Our audit fieldwork was scheduled for early October in line with when the finance team anticipated being ready for audit.

There were delays in the performance and completion of the audit work. While draft core financial statements were provided along with a trial balance and some supporting schedules for balances at the time of the audit from 16 October, additional supporting schedules were provided after the onsite audit time was completed. In addition, the full draft financial statements including performance report, remuneration and staff report and corporate governance statement completed by the wider management team were provided on 13 November. Downloads of financial data from both the general ledger and payroll systems were not available, resulting in a more manual approach to auditing of payroll in particular.

We have agreed with management to facilitate a debrief process in early 2018 in respect of the financial statement preparation process and subsequent audit. This will support management in developing a plan for the year ending 31 July 2018 audit. In particular this will focus on:

- Agreeing a management timetable for delivery of all information pertinent to the audit, in particular the delivery of a full set of draft financial statements in advance of the commencement of the audit fieldwork.
- Clarification of audit information required to support key balances.
- Delivering an interim audit to complete planning and early testing of transactions in the year and minimise the pressure at year end.
- Supporting management with the delivery of financial data downloads in advance of the 2017/18 audit.

Materiality
We planned our procedures using a materiality of £125,000. We reassessed this using the actual year-end figures, to ensure that our level of materiality remained appropriate. We did not change our assessment of materiality as a result of this reassessment. Our Tolerable Error for the audit was £62,500 and the threshold for reporting audit differences was £6,250. We also identified areas where misstatement at a lower level than materiality might influence the reader of the financial statements and developed a specific audit strategy for it. These included: • Remuneration report – we considered at a materiality appropriate to the banding of disclosure in the remuneration report • Related party transactions - we considered the nature of these disclosures individually.
Audit differences
There were two differences above our stated audit differences reporting threshold identified through the audit process, including adjustments made by management subsequent to provision of the first draft of the core financial statements. All these differences were adjusted by management in the final draft of the financial statements. There were no unadjusted audit differences.

1. Financial statements and accounting

Our Audit Plan identified key areas of focus for our audit of the College's financial statements, including significant risks. This report sets out the results of our audit procedures plus relevant observations, including our views on areas which might be conservative, and where there may be potential risk and / or exposure.

Significant risk – risk of fraud in revenue recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We rebutted the presumed revenue recognition risk in relation to SFC core funding to the College. This was based on the fact that the funding is clearly allocated for delivery of activity within the financial year. Prior year College returns to the SFC have demonstrated that it has delivered on student credits (formerly SUMs) allocated to it at a regional level. Furthermore as the regional body has been over-achieving against its credit target from the SFC, there is no recent history of material clawback from the SFC. As there has been no history of material issues or concerns raised through internal audit review of the College's data return for funding (FES) to the SFC, we considered the risk over potential clawback due to inaccurate data as low. However we recognise a revenue recognition risk for tuition income and other material income in respect of possible manipulation of cut-off around the financial year end.

Results of audit procedures

We undertook the following procedures as part of our audit:

- Reviewed and tested revenue and expenditure recognition policies against the relevant accounting standards and the SORP.
- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- Developed a testing strategy in respect of material revenue and expenditure streams. For tuition fees and education contracts, we substantively tested a sample of transactions to third party supporting evidence to ensure appropriate recognition. For SFC and other funding body grant income we reviewed all material grant funding recognised in the year for any indicators of either claw-back or that the terms and conditions of the financial memorandum were not complied with in all material respects. For other income, we performed substantive testing over a sample of transactions to gain assurance.
- For non-pay expenditure we reviewed the key management procedures around approval of expenditure throughout the year, and substantively tested a sample of transactions throughout the year to third party supporting evidence.
- We performed focused additional testing around income and expenditure transactions posted at the year end to gain comfort that key items are recorded in the correct accounting period. In particular we focused on any transactions incurred after 31 July, but included in the 2016/17 financial ledger.
- We reviewed and tested a sample of debtor and creditor balances at the year end, including material balances. We undertook an assessment of aged balances held on the balance sheet at year end including investigation of unusual items, such as those past payment due date.

Through the course of our audit work we identified two differences in relation to recognition of income and expenditure in 2016/17, one of which was brought to our attention by management during the course of the audit. Both differences were adjusted in the finalised financial statements. No other differences were identified through the course of our work.

Significant Risk, fraud in income and expenditure recognition – what have we concluded?

- Our testing identified two adjustments over revenue and expenditure recognition during the financial year. The net impact of these adjustments was to reduce the deficit by £3,000. With the exception of these adjustments, we have completed our audit procedures satisfactorily.

Significant risk – management override
What is the risk?
As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Results of audit procedures
Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation. **Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates** We identified and considered the appropriateness of key accounting estimates, such as provisions and accruals, and their susceptibility to bias. Management has disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. We have reviewed these and agree with the detail of the assessment performed. **Evaluate the business rationale for any significant unusual transactions** We did not identify any significant unusual transactions. We have not identified any material weaknesses in the design and implementation of control arrangements tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Significant risk, Management override – what have we concluded?
• We have not identified any material weaknesses in the design and implementation of control arrangements tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Other inherent risks
Valuation of property, plant and equipment
The College's property portfolio totals £24.7 million as at 31 July 2017, with the major elements of this being in respect of land and buildings. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years. Given the size of this balance and the fact that a number of assumptions are made in the valuation, we assign a higher inherent risk to property, plant and equipment.
Results of audit procedures
In response to the inherent risk we performed the following audit procedures: • We agreed the carrying value of assets held to source data and enquired of management as to the procedures used to establish whether the source data is complete. • We reviewed the basis of asset valuations that had been performed in the year, resulting in a £2.2 million upwards revaluation in land and buildings at 31 July 2017. • We reviewed the property valuation and challenged management on the possibility of any impairment to the estate in the year that should be recognised prior to the next revaluation. • We re-calculated depreciation charges in the year to ensure they were correct and reflected in the release of related deferred capital grants in the year. We noted no audit differences in the performance of our procedures.

Other inherent risk, valuation of property, plant and equipment – what have we concluded?

- We are satisfied that management has adequate arrangements to ensure that property, plant and equipment is appropriately valued within the financial statements.

Other inherent risks

Valuation of pension liabilities

The College participates in two pension scheme; the Local Government Pension Scheme (LGPS) administered by Aberdeen Council and the Scottish Teachers Superannuation Scheme (STSS). While both are defined benefit pension schemes, the College is unable to identify its share of the underlying assets and liabilities of the STSS scheme on a consistent and reasonable basis and therefore, the scheme is accounted for as if it were a defined contribution scheme.

The LGPS is accounted for as a defined benefit scheme. The net pension liabilities on the balance sheet as at 31 July 2017 arising from participation in the scheme were £7.4 million. In addition the College recognises a provision for future early retirement liabilities of £2.8 million.

Results of audit procedures

In response to the identified inherent risk we:

- Obtained actuarial reports at the year end date for the LGPS scheme and considered the reasonableness and consistency of assumptions underpinning such reports, in light of guidance available ensuring compliance with funding agreements.
- Utilised our in-house actuaries to assess the reasonableness of key assumptions such as discount rate, inflation and expected market return.
- Performed substantive testing on the valuation of the College's share of the pension assets and audited the calculation of the College's valuation and disclosure in the financial statements.

No matters were identified in respect of our testing over pension assets. In respect of the key assumptions around discount rates and future inflation. Our actuarial specialists noted that the assumptions were within a range we consider acceptable. We have included an assessment of the key assumptions driving the pension liability at year end in Appendix E.

We are comfortable the assumptions are within this range and therefore appropriate for the 2016/17 financial statements. Through the course of our audit work our actuaries have noted that the salary increase assumption included in the calculation of the liability is considered on the prudent side of the range deemed reasonable. The College pension liability assumes salary increases for active members of 3.7%, being 1.5% above assumed inflation. It was confirmed that the same assumptions are used across all employers for the fund and is designed to cover salary increases beyond inflation, such as promotions and banding increases.

While management considers the assumption prudent, the impact on the liability of reducing by 0.3% would be approximately £400,000, with no impact on the surplus or deficit as the change does not effect the College's current service cost. Management has subsequently confirmed it will keep the current assumptions and review these going forward in 2017/18 in conjunction with its actuaries and the pension scheme administrator.

Other inherent risk, valuation of pension liabilities – what have we concluded?

- The LGPS defined pension scheme liabilities were estimated using actuarial assumptions which we consider to be reasonable. We have undertaken appropriate testing of underlying data to support the calculation of the liability.

1. Financial statements and accounting

Our Audit Plan identified other aspects of our work which arise either in accordance with International Standards on Auditing (UK) or in accordance with the Code. These are set out below.

Other audit matters

Opening balances

International Standard on Auditing (UK) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.

In response, we have:

- Reviewed prior year financial statements, annual audit reports and other reports issued by the former external auditor and held discussions with the former external auditor in respect of previous significant audit issues, corporate governance and as part of our audit risk assessment.
- Substantively tested material opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance.
- Undertaken a mix of testing on balances during 2016/17 which provides assurance on the judgements and estimates made as at 31 July 2016, in particular in relation to reviewed the retrospective accuracy of estimates at year end 31 July 2016 in the 2016/17 financial statements.

Opening balances – what have we concluded?

- Our testing on opening balances was completed satisfactorily. We have no matters to bring to your attention in respect of our work on the qualitative aspects of the financial statements.

In accordance with Audit Scotland requirements, our independent auditor's report also covers the key narrative statements such as the Performance Report, the Accountability Report and the Remuneration and Staff Report which the College is required to include within its Annual Report and Accounts.

Other reporting requirements
Performance Report
In accordance with the Code, we review the information contained within the Performance Report and confirm that this is consistent with the information reported within the financial statements. As a new responsibility in 2016/17, under the Code, Audit Scotland requires us to also express an opinion on whether the Performance Report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council. We are satisfied that the information with the Performance Report is consistent with the financial statements and has been prepared in accordance with applicable requirements.
Accountability Report, including the Governance Statement
Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council. We are satisfied that the information with the Governance Statement is consistent with the financial statements and has been prepared in accordance with applicable requirements.
Remuneration and Staff Report
Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations. We are satisfied that auditable part of the remuneration and staff report has been properly prepared in accordance with regulations.
Regularity opinion
The Board of Management is responsible for ensuring the regularity of expenditure and income. Auditors are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. 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.

Other reporting requirements – what have we concluded?

- We reviewed the other information presented within the financial statements and provided management with comments to enhance the content, structure and presentation of these. These were amended by management.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We have not identified any other matters on which we are required to report by exception.

2. Wider scope audit

2. Wider scope audit

In accordance with the Code, we provide judgements and conclusions in respect of our work on the four audit dimensions of public sector audit: financial management; financial sustainability; governance and transparency; value for money.

Wider scope audit risks

The Code requires us to undertake work in respect of each of the four dimensions on an annual basis. The Code also sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you. In undertaking our risk assessment in respect of the wider scope audit areas, we distinguish between the definition of 'significant risks' which apply to the audit of the financial statements, by referring to 'Wider Scope Audit Focus Areas'. In March 2017, the Auditor General for Scotland reported on the 2015/16 audit of Moray College under section 22(3) of the Public Finance and Accountability (Scotland) Act 2000. The report highlighted significant concerns around the College's financial management and reporting arrangements including a lack of audit trails to support some budget and forecast figures or clear explanation for significant variances between budgets and actual results. The report also concluded that the College's financial position was not sustainable, highlighting that fundamental change was required to reduce the cost base and deliver a sustainable, balanced budget.

In our Annual Audit Plan we therefore identified audit focus areas around these two dimensions of the wider scope audit arrangements, in addition to our routine work in respect of each of the other wider scope audit dimensions, by considering the evidence available to us through various aspects of our work.

Financial management

The College reported a deficit of £463,000 for the year (2015/16: deficit of £876,000). The main reason for the reduction in the reported deficit is increased grant and tuition fee income resulting from increased student numbers in the year. There has also been a slight reduction in core recurring staff costs, although this was offset in 2016/17 by increases in the pension costs attributable to staff costs and voluntary severance costs in the year. The College reported that the underlying operating position was a £412,000 surplus (2015/16: deficit of £151,000). In addition, the College reported a £416,000 increase in cash, reducing the amount owed to the Regional Strategic Body by £358,000 to £300,000 at 31 July 2017. This represents an improved position.

The College reported a £463,000 deficit in year against a £642,000 budgeted deficit. The level of SFC funding received was higher than projected due to additional allocations being received during the year, however this was offset by the cost of the nationally bargained pay awards for teachers which were finalised in the year and staff costs relating to pensions and voluntary severance.

Funding aspect	Actual - £m	Budget - £m	Variance - £m
Income	12.860	12.008	0.852
Expenditure (including net non-operational expenditure)	(13.323)	(12.650)	(0.673)
Total deficit (before tax)	**(463)**	**(642)**	**201**

Financial reporting

The College's externally facilitated Board effectiveness review, published in May 2017, noted a number of areas for improvement required for financial reporting at the College:

- *The quality of the financial information presented to the Finance & General Purposes Committee was highlighted as an area where there is scope for improvement moving forward into the delivery phase of the Financial Recovery Plan. In particular, the need for clarity on the baseline budget; the need for meaningful narrative to explain any significant variances against the milestones set out in the Financial Recovery Plan and the distillation of figures down into key messages on the overall financial position were identified as key areas which the incoming Director of Finance should focus their attention.*
- *There was no high-level finance report, produced for all Board committees, which sets out the current level of spend against budget, a projected year end position, progress in identifying and delivering cash releasing savings projects and key data such as student numbers and retention figures. This would allow early identification of issues around student numbers and retention and would assist decision making at committee level on the use of any identified surplus or would allow savings to be identified in-year to address any projected deficit to aid the delivery of the Financial Recovery Plan.* (This point was addressed from May 2017 onwards)

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Internal control and internal audit

It is the responsibility of the College to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility, as auditor, is to consider whether the College has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

Through our audit of the financial statements we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our first year audit has been predominantly substantive in nature, and therefore we have not tested the operating effectiveness of key controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We did not identified any specific matters in relation to key controls or other procedures that impacted our audit of the financial statements. However, through the course of our audit and interactions with finance we noted that, while knowledgeable in their roles, capacity across the finance and other supporting teams (including payroll and student support) was limited. We noted the changes and absences in the year directly impacted the financial statement preparation process and subsequent audit earlier in this report. The Board and management have acknowledged that ensuring appropriate resource capacity and capability across a number of areas requires ongoing focus.

Henderson Loggie provide internal audit services for the College. We reviewed the annual internal audit report and noted their overall opinion: *"In our opinion, with the exception of the issues raised in the report above, there is sufficient evidence that the College has adequate and effective arrangements for risk management, control and governance."*

In expressing their opinion, the internal auditors noted that there were four areas identified as '*significant issues arising from 2016/17 internal audit reports*'. These areas were around corporate planning, the executive structure, financial reporting arrangements and board effectiveness. Additionally they noted that as in previous years, their follow-up work identified a number of older recommendations that had yet to be fully implemented, although progress in key areas was noted.

As part of discharging our responsibilities and forming our conclusions in respect of the wider scope audit dimensions we have considered the findings of internal audit, together with the externally facilitated board effectiveness review. Financial management within the College as it operated for the majority of the financial year required improvement. With the finance team now at full capacity, this should remain an area of focus for management and the Board to ensure that identified areas for improvement continue to be addressed.

Financial management - what have we concluded?

- The College reported a deficit of £463,000 for the year (2015/16: deficit of £876,000). The main reason for the reduction in the reported deficit is increased grant and tuition fee income resulting from increased student numbers in the year. There has also been a slight reduction in core recurring staff costs, although this was offset in 2016/17 by increases in the pension costs attributable to staff costs and voluntary severance costs in the year. The College reported that the underlying operating position was a £412,000 surplus (2015/16: deficit of £151,000). In addition, the College reported a £416,000 increase in cash, reducing the amount owed to the Regional Strategic Body by £358,000 to £300,000 at 31 July 2017. This represents an improved position.
- Financial management within the College as it operated for the majority of the financial year required improvement. Finance team resources were stretched during the year. The finance team is now at full capacity and so will be able to take steps to effect this improvement, however, this should remain an area of focus for management and the Board to ensure that identified areas for improvement continue to be addressed.

Financial sustainability is focused on the medium to longer term financial viability, and considers how effectively an audited body is planning to delivers its services over the medium term.

Financial sustainability

Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer-term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Audit Scotland's sector report: Scotland's colleges 2016, highlighted that between 2011 and 2015/16 the Scottish Government funding to the sector reduced by 18% in real terms. While the College's core funding has remained relatively stable in the current year of £9.0 million (2016: £8.6 million) management recognise that savings will be required in future years with envisaged constraints on future public sector resources. This requires an ability to transform and deliver significant recurring efficiency savings, while at the same time ensuring that the impact on core delivery is minimised.

In the College financial statements, management notes "the Board of Management considers that the College, with UHI support, has adequate resources to continue in operational existence for the foreseeable future", in relation to going concern. This is in line with previous years where the College has sought and received cash advances from UHI to manage cash flow arrangements in the short term.

The College was subject to a Section 22 report submitted in March 2017, which noted that in 2015/16 "*during the year, the college needed to urgently draw down an advance on its funding allocation for 2016/17 from the University of the Highlands and Islands (UHI) as it did not have enough money to meet its operational costs. The auditor concluded that the current financial position was not sustainable and that the college needs to take action to achieve financial balance. The college's recovery plan has been submitted to UHI and the Scottish Funding Council (SFC).*" The Section 22 report was considered at a meeting of the Scottish Parliament's Public Audit and Post-Legislative Scrutiny Committee on 22 June 2017.

The College's original anticipated position for 2016/17 was a deficit of £967,000. However, following a detailed review of staff and other expenditure, the final financial recovery plan had a revised forecast deficit of £606,000 for 2016/17. The financial recovery plan outlined plans for both short term and longer term savings, and also income generation, designed to restore the College to a position of positive cash flow and positive income over a three year period. Some of these interventions included:

- £360,000 savings through initiatives already started, in particular the College's voluntary severance scheme (which was approved in 2016/17).
- Future HE income growth from new courses from 2018/19.
- £360,000 increase in commercial income.

The recovery plan has subsequently been reviewed and updated in line with the updated financial outturn for 2016/17 and revised forecasts for 2017/18 and beyond to align with the College's financial forecast return submitted to the SFC.

Financial planning – 2017/18

The 2017/18 budget was approved by the Finance and General Purposes committee in 2017. It forecasts a deficit of £240,000 (compared to the £463,000 deficit in 2016/17), but with an underlying cash surplus of £205,000 after adjusting for non-cash items, being net depreciation.

The initial deficit forecast in the College's financial recovery plan for 2017/18 was £150,000 and so the increase in deficit to £240,000 was as a result of achieving lower than forecast savings through the College's voluntary severance scheme.

Financial sustainability is focused on the medium to longer term financial viability, and considers how effectively an audited body is planning to delivers its services over the medium term.

Medium term financial planning - *Financial Forecast Return (FFR)*

The College has prepared its five-year financial forecast return 2017 to 2022 and submitted these to the Scottish Funding Council. Over the life of the Financial Recovery Plan, these show a continually improving picture for the underlying position of the College, in particular working to eliminate reliance on short terms advances from the Regional Strategic Body to support the College's cash flow.

The forecasts have been prepared based on the latest financial recovery plan forecasts for 2017/18 and 2018/19, and updated for SFC guided assumptions around income and expenditure through to 2021/22.

The key assumptions from review of the financial forecasts are:

- SFC grant income to remain consistent with current funding allocations from UHI and in line with projected student activity numbers.
- Commercial income to increase in line with the College's financial recovery plan, which projects a £360,000 increase over the course of the plan.
- Staff costs savings to reflect a revised voluntary severance saving, down to £260,000 from £350,000 as initially forecast in the recovery plan.
- Income from 2019/20 financial year onwards to increase by between 1.5% (for tuition fee and other income) and 2% (for funding grant income).

The College's recovery planned outlined progress to date and future plans to deliver savings. The assumptions included in the forecast are outlined in the College's Financial Forecast Return. In our view, while the assumptions around income do not appear unreasonable, there is significant sensitivity in the College's forecasts to the achievement of the forecast increase in all income streams between now and 2022. For example, an assumption of a 1.5% increase in income annually represents £175,000 income annually contributing to the overall underlying position.

We will continue to monitor this situation during the course of our audit appointment.

Financial sustainable - what have we concluded?

- The College's Financial Recovery Plan was approved in February 2017 and was designed to restore the College to a position of positive cash flow and positive income over a 3 year period. The 2016/17 financial position showed a deficit of £463,000 against a financial recovery plan forecast deficit of £606,000. The College has prepared its five-year financial forecasts 2017 to 2022 and submitted these to the Scottish Funding Council. Over the life of the Financial Recovery Plan, these show a continually improving picture for the underlying position of the College, in particular working to eliminate reliance on short terms advances from the Regional Strategic Body to support the College's cash flow.
- The assumptions included in the forecast are outlined in the College's Financial Forecast Return. In our view, while the assumptions around income do not appear unreasonable, there is significant sensitivity in the College's forecasts to the achievement of the forecast increase in all income streams between now and 2022. We will continue to monitor this situation during the course of our appointment.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Governance and transparency

The Board and management of the College are responsible for establishing robust governance arrangements. This includes ensuring effective systems of internal control, including arrangements to safeguard public money, and compliance with applicable laws and regulations. Through our discussions with management and previous auditors, subsequent to the presentation of our annual audit plan in May, we are aware of a number of gaps in the governance arrangements which we have outlined below.

Governance arrangements

In addition to the overall opinion expressed by internal audit during 2016/17, they conducted a review of the College's draft management team structure. This concluded that the system required improvement. In particular, concerns were raised by internal audit and management over the capacity and split of roles across the new structure, in particular on the director of finance. The Board's effectiveness review found that the College had demonstrated a clear commitment to good governance by putting in place a Code of Conduct for all Board members and by updating the Standing Orders; Terms of Reference for Board committees and Scheme of Delegation to reflect the updated Code of Good Governance for Scotland's Colleges. Notwithstanding that, some additional areas for improvement were identified through the 1 to 1 discussions, and through their review of documentation, which would enhance the Board arrangements in the context of the updated Code of Conduct. Additionally, a number of areas for improvement were identified, around leadership and strategy, accountability, effectiveness and relationships and collaboration. Management agreed the recommendations with individuals responsible and timelines for implementation. The Board is monitoring progress of the required actions to address the findings.

Risk management

Management has noted during the year that the College risk register and risk management process as it currently stands was not fit for purpose and the wider management team needed to take ownership of their own actions. This view was shared by the Audit Committee and internal audit. Significant work has been undertaken and the Board plans to review a revised framework, approach and risk register in early 2017/18.

Management of key policies and procedures

Management has noted that there is a record of all key College policies and procedures. including review dates and the committee responsible for reviewing and approving updated policies and procedures. However, a number of the College's policies and procedures are now overdue for review due to a focus on other priorities. Management has agreed to undertake an exercise to determine which policies and procedures should be prioritised and to commence an exercise of reviewing and updating the required policies and procedures.

Governance and transparency – what have we concluded?

- While progress has been made by the Board and management in improving a number of aspects of the College's governance arrangements, significant work continues to be required during 2017/18 to ensure that governance arrangements are robust and fully in line with guidance and best practice.

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively; services are improving and the College has appropriate arrangements to demonstrate Best Value.

Strategic planning and performance reporting

The most recent College Strategic Plan ran from 2011-15 and its finishing coincided with the new Principal arriving. The College's new strategic plan runs to 2020 and aligns with the UHI strategic plan and its core values. The five strategic aims of the College are now based on the following areas:

- Curriculum
- Learning and Teaching
- Organisational Culture
- Partnership
- Sustainability

The College has reported on its activity in relation to the strategic plan in the 2016/17 financial statements, and the 2017/18 operational plan is aligned to the overarching strategic aims. In order to support the delivery of the objectives in the strategic plan, and to allow those charged with governance to monitor performance during the strategic plan period, it is important that management ensures performance measures are developed against the key objectives of the strategic plan.

The externally facilitated review completed during the year noted that although the College had undertaken a significant amount of work to identify the Mission, Vision and Values of the College the strategic plan could have been further enhanced by identifying a set of prioritised strategic aims and objectives which demonstrated how the Vision would be achieved. The report also noted that the Principal had stressed that the detail on how the College would achieve the vision and values set out in the strategic plan was provided in the College operational plan although acknowledged that, for external stakeholders, it would be beneficial to provide further detail in the strategic plan.

The review also noted that although Board members were given the opportunity to discuss and comment on the strategic plan 2016-2020, both before and after external stakeholder consultation, there was a perception amongst some Board members that the strategic plan does not explicitly link with the financial recovery plan and that further work was required to develop meaningful KPIs to track progress in delivering the key priorities.

The mid-year review of the College operational plan submitted to the March 2017 meeting of the Board showed progress against a RAG status, but some Board members expressed the view that further work was required to explain the explicit linkages between the operational plan and the strategic plan 2016-2020 and the linkages between the operational plan and the Regional Outcome Agreement.

Value for Money – what have we concluded?

- The College has recently updated its new strategic plan which runs to 2020 and aligns with the UHI strategic plan and its core values. The five strategic aims of the College are now based on: curriculum; learning and teaching; organisational culture; partnership and sustainability.
- As management and the Board recognise, further work is required to ensure the effective alignment between the strategic, operational and financial recovery plans, together with improving the effectiveness of monitoring and performance reporting against robust KPIs.

Appendices

A. College responsibilities
B. Required communications with the Audit Committee
C. Auditor independence
D. Management representations
E. Actuarial assumptions heat map
F. Summary of audit differences

A. College’s responsibilities

The Code of Audit Practice summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

<table>
<tr><th colspan="2">Responsibilities of audited bodies</th></tr>
<tr><td>Corporate governance</td><td>Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure 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 should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.</td></tr>
<tr><td>Financial statements and related reports</td><td>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:
preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
maintaining proper accounting records.
preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</td></tr>
<tr><td>Standards of conduct / prevention and detection of fraud and error</td><td>Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</td></tr>
<tr><td>Financial position</td><td>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:
such financial monitoring and reporting arrangements as may be specified
compliance with any statutory financial requirements and achievement of financial targets
balances and reserves, including strategies about levels and their future use
how they plan to deal with uncertainty in the medium and longer term
the impact of planned future policies and foreseeable developments on their financial position.</td></tr>
<tr><td>Best Value</td><td>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.</td></tr>
</table>

B. Required communications

There are certain additional communications that we must provide to the Audit Committee, in accordance with ISA (UK) 260 and other auditing standards, which are set out below.

Required communication - what is reported?	Our reporting to you
Terms of engagement Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Annual Audit Plan
Significant findings from the audit • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • Findings and issues around the opening balance on initial audits	This Annual Audit Report.
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about the College's ability to continue for the 12 months from the date of our report.
Fraud • Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the College • Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ► A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.	This Annual Audit Report.

Required communication - What is reported?	Our reporting to you
Misstatements • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Significant corrected misstatements, in writing	This Annual Audit Report.
Significant deficiencies in internal controls identified during the audit • Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report No significant deficiencies were identified in the course of our audit which required immediate communication to the Audit Committee.
Related parties Significant matters arising during the audit in connection with the College's related parties including, where applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and/or regulations • Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.
Subsequent events • Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Other information • Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	We have no matters to report.
External confirmations • Management's refusal for us to request confirmations • We were unable to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations.
Consideration of laws and / or regulations • Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off". • Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit ad Risk Governance Committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Independence • Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.	This Annual Audit Report – Appendix C

C. Independence

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the College.

What we are required to communicate

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- The principal threats
- Safeguards adopted and their effectiveness
- An overall assessment of threats and safeguards
- Information on the firm's general policies and processes for maintaining objectivity and independence
- Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Risk Management Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the College Audit Committee on 28 November 2017.

Summary of fees

As part of our reporting on our independence, we set out a summary of the fees paid for the year ended 31 July 2017. As outlined in our annual audit plan and in this report, given the additional wider scope areas of focus for the College and the additional work required in the audit, we anticipate additional fees in line with the agreed Audit Scotland day rates. We will discuss and agree a fee variation with management.**

No non--audit fees were incurred in the year.

Base expected auditor remuneration as set by Audit Scotland	£13,130
Fixed costs *	£1,570
Total **	**£14,700**

* Fixed costs, which are determined by Audit Scotland, comprise £820 pooled costs, £750 contribution to Audit Scotland's costs.

ISA (UK) 580*: Written representations,* requires the auditor to obtain written representation that management, including those charged with governance, has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant, their fair presentation.

Ernst & Young LLP
Atria One
144 Morrison Street,
Edinburgh, EH3 8EB
[Date]

This letter of representations is provided in connection with your audit of the financial statements of Moray College ("the College") for the year ended 31 July 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the College financial statements give a true and fair view of the College financial position as of 31 July 2017 and of its income and expenditure for the year then ended in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.
2. We acknowledge, as members of management of the College, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the College in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the College, we believe that the College has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the College's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated financial statements or otherwise affect the financial reporting of the College.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Board of Management of the College and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meetings.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the College's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the College has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the consolidated financial statements all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. As disclosed in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated financial statements or notes thereto.

G. Going concern

1. We have not identified any material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the consolidated financial statements are authorised for issue.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Management Commentary, the Remuneration Report, the Annual Governance Statement and the Statement of Responsibilities.
2. The disclosures within the Management Commentary reflects our understanding of the financial and non-financial performance of the College over the reporting year, is consistent with the financial statements and has been prepared in accordance with relevant guidance.
3. The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared reflects the College's governance framework, is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
4. The information contained in the auditable part of the Remuneration Report has been prepared in accordance with Accounts direction.
5. We confirm that the content contained within the other information is consistent with the financial statements.

Yours faithfully,

____

Principal

____

Chair of the Board of Management of the College

We have included a visual representation of the College's actuarial assumptions used in the estimation of the LGPS pension liability, against our range for what we consider reasonable.

Review of actuarial assumptions

We have outlined below our actuaries' assessment of the College's assumptions used in estimating the FRS 102 pension liability. All assumptions are within a range deemed reasonable.

Financial assumptions	Prudent	Central	Optimistic
Discount rate		2.60%	
Price inflation (RPI)		3.40%	
Price inflation (CPI)		2.20%	
Salary growth (above inflation) (1)		+1.50%	
Pension increases in payment (2)		+0.00%	
Pension increases in deferment (2)		+0.00%	
Demographic assumptions	**Prudent**	**Central**	**Optimistic**
Mortality in retirement		S1PxA CMI_2013 1.50%LTR	
Retirement age		Varies	
Commutation		50% of max	

(1) The assumption for salary increases has been stated relative to the corresponding CPI inflation assumption.
(2) The assumptions for pension increases both in deferment and payment have been stated relative to the corresponding CPI inflation assumption.

F. Summary of audit differences

There were a number of adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

Summary of audit differences – adjusted differences			
No.	**Account**	**Comprehensive income and expenditure statement (Increase) / Decrease £000**	**Balance sheet (Decrease) / Increase £000**
1	***Being an accrual of previously unrecorded income at yearend***		
	Balance Sheet – Accrued Income		18
	SOCI – Other Income	(18)	
2	***Being accruals related to expenditure at yearend not previously recognised***		
	SOCI - Expenditure	15	
	Balance Sheet – Accruals		(15)

EY | Assurance | Tax | Transactions | Advisory