Moray College

Annual Audit Report to the Board of Management and the Auditor General for Scotland - year ended 31 July 2019

17 December 2019

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 Public Finance and Accountability (Scotland) Act 2000 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the College and is made available to the Auditor General for Scotland and Audit Scotland. 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 Diane McGiffen, 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.

Key Conclusions from our 2018/19 audit

Financial statements: Audit Opinion	We have concluded our audit of the College's financial statements for the year ended 31 July 2019. We identified three unadjusted audit differences arising from the audit. Two audit adjustments were processed as part of the audit. We concluded the other information subject to audit, including parts of the Remuneration Report and the Annual Governance Statement were appropriate.	GREEN
Presentation and disclosures	The draft financial statements and supporting working papers were of a good quality and were received at the start of the audit in line with the agreed timetable. We agreed with management's assessment of preparing the financial statements on a going concern basis. Management has, however, used disclosures within the financial statements to draw attention to a significant worsening financial position. The Board of Management has sought and received assurance from UHI in its role as the College's Regional Strategic Body (RSB) that should cash be required, adequate financial support in the form of advance funding will be made available to ensure that the College can meet its liabilities as they fall due. We were satisfied that the Governance Statement materially reflects the requirements of the Scottish Funding Council's 2018/19 Accounts Direction.	GREEN
Wider Scope: Financial Sustainability	In September 2019, the College prepared a five year Financial Forecast Return (FFR) for the Scottish Funding Council, which identified a deficit of over £7 million in the period to 2023/24. The College has worked closely with the RSB to review the assumptions within the submitted draft FFR and has identified additional cost savings for 2019/20. As a result, the deficit over the period of the plan has fallen to £1.9 million. Further work is required to develop a robust recovery plan that supports the financial sustainability of the College, while responding to additional cost pressures such as the estates maintenance backlog. The College was unable to approve a balanced budget for 2019/20, and has been required to seek and receive assurances from UHI about funding to support the cash position in 2019/20.	RED
Governance and Transparency	The College has conducted a self assessment against the 2016 Code of Good Governance for Scotland's Colleges, and identified two areas of non-compliance. The College has also made robust disclosures within the Annual Governance Statement relating to the risk to the financial sustainability of the College, and has raised matters with the RBS to seek a resolution. The College continues to embed its risk management arrangements and we concluded that the College's preparations for EU withdrawal appear appropriate.	AMBER

1 Introduction

Our key contacts:

Stephen Reid
Partner
sreid2@uk.ey.com

Grace Scanlin
Senior Manager
grace.scanlin@uk.ey.com

Steven Caldwell
Assistant Manager
steven.caldwell@uk.ey.com

Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000 ("the Act"), 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.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both members of the Board of Management and the Auditor General for Scotland, and is presented to those charged with governance. This report is provided to Audit Scotland and will be published on their 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 Annual Audit Plan.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the College employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the College in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding the College's arrangements.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as the College's external auditor.

Scope and Responsibilities

The Code sets out the responsibilities of both the College and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Audit Committee on 21 May 2019.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2018/19 financial statements. We can confirm that we carried out our audit in accordance with the plan. Minor changes were made to the level of materiality that we applied during the audit, to reflect the 2018/19 draft financial statements.

Overall Materiality	Tolerable Error	Reporting threshold
£280,000	£210,000	£14,000
1.9% of the College's gross expenditure	Materiality at an individual account level	Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level of £1,000 to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

Financial statement audit

We are responsible for conducting an audit of the College's financial statements. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; relevant Auditing Standards and applicable Practice Notes issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

Our findings are summarised in Section 2 of this report.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on dimensions of wider scope public audit. During our planning procedures, and in accordance with Audit Scotland planning guidance, for 2018/19 we assessed the College as meeting the definition of a smaller body for the purposes of our wider scope audit consideration. Our focus has therefore been on the College's arrangements:

- to secure financial sustainability; and
- the appropriateness of the disclosures in the governance statement.

Our findings are summarised in Section 3 of this report.

2 Financial Statements audit

Introduction

The annual financial statements provide the College with an opportunity to demonstrate accountability for the resources at its disposal, and report on its overall performance in the application of those resources during the year. We are responsible for conducting an audit of the financial statements of the College and provide an opinion on the financial statements as to:

- whether they give a true and fair view of the state of affairs of the College as at 31 July 2019 and the deficit for the year then ended;
- whether they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- whether they 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).

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

Our Annual Audit Plan was considered by the Audit Committee on 21 May 2019. The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- the risk of fraud in revenue and expenditure recognition (significant risk); and
- misstatements due to fraud or error (fraud risk).

The plan also highlighted two areas of higher inherent risk within the 2018/19 financial statements:

- Valuation of Property, Plant and Equipment; and
- Pension Liability and Asset Valuation.

Compliance with financial reporting requirements

As part of our oversight of the College'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 Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustees Investment (Scotland) Act and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Presentation and quality of financial statements

Management provided draft financial statements at the start of the audit, in line with the agreed timetable. The financial statements were complete and of a good quality, supported with appropriate working papers. The financial statements had been updated for the new requirements as outlined in the SFC's 2018/19 Accounts Direction for colleges.

Audit outcomes

We identified three unadjusted audit differences arising from the audit that breached our reporting threshold. Two adjustments were processed as part of the audit. The impact of both the adjusted and unadjusted differences are outlined in Appendix F.

Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
Financial statements The financial statements provide a true and fair view of the state of affairs of the College at 31 July 2019 and of the deficit for the year then ended The financial statements are prepared in accordance with the financial reporting framework	We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement. We are satisfied that accounting policies are appropriate and estimates are reasonable. We have considered the financial statements against the financial reporting requirements, and additional guidance issued by the SFC and Audit Scotland.	We issued an unqualified audit opinion on the 2018/19 financial statements.
Going concern We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting	We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis. Wider scope procedures, including financial forecasts are considered as part of our work on financial sustainability.	We agree that the going concern basis is appropriate. Also refer to Financial Sustainability on page 20.
Other information We consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit	We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon: • Review of committee minutes and papers, regular discussions with management, our understanding of the College and the sector.	We are satisfied that the annual report materially meets the core requirements set out in the Accounts Direction.
Report on regularity of income and expenditure We are required to consider whether in all material respects the income and expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers	Our procedures include: • Understanding the applicable enactments and guidance issued by the Scottish Ministers • Performed detailed testing of income and expenditure testing to ensure transactions are in line with enactments and guidance	We are satisfied that in all material respects income and expenditure are regular.
Matters prescribed by the Auditor General for Scotland Audited part of Remuneration Report has been properly prepared. The Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.	We are required to report on whether the sections of the Remuneration and Staff report, and Accountability report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.	We have no matters to report.
Matters on which we are required to report by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit	We have no matters to report.

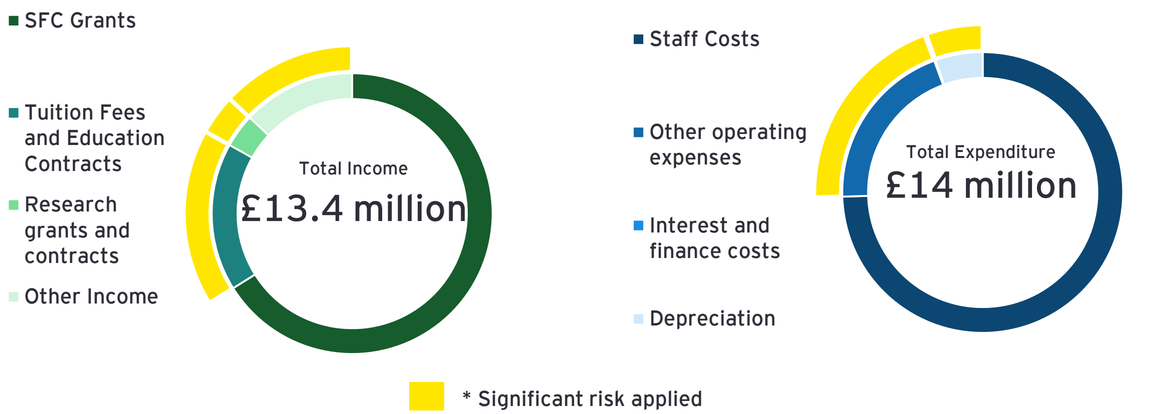
Significant and fraud audit risks

1. Risk of Fraud in Income and Expenditure Recognition

As we outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

In our audit planning, we rebutted the risk of improper recognition of Scottish Funding Council ("SFC") core grant funding because there is no judgement in respect of this income stream. With regards to expenditure, we rebutted the risk of improper recognition of payroll expenditure. The charts below highlight how our assessment impacts our testing strategy on the College's financial statements.

Exhibit 1: Key components of the College's income and expenditure



Source: 2018/19 Financial Statements: Statement of Comprehensive Income and Expenditure

Our testing has not identified any material misstatements relating to revenue and expenditure recognition.

Specific procedures relating to significant risks

We undertake specific, additional procedures over income and expenditure streams where we identified a significant risk, including:

- Review and challenge management's accounting estimates over revenue or expenditure recognition for evidence of bias.
- Review transaction listings for individually material balances as well as unusual items to agree to supporting documentation and third party evidence.
- Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage of testing across all balances.
- Review and test income and expenditure to ensure it is accounted for in the correct financial period.
- Perform a search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.

Our Audit of Other Income and Expenditure

We undertook walkthroughs in respect of the processes management has established to account for material income and expenditure streams. We obtained data downloads from the College's financial ledger to allow us to trace key transactions from initiation to recording in the financial statements.

Other audit procedures: non-significant risk areas:

Our audit work on other areas, where there were no significant risks, identified no audit misstatements. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

Scottish Funding Council income: We agreed receipts in the year for SFC grant income to the financial ledger and SFC grant award notification. We have assessed the College's compliance with required grant requirements (such as credits achievement) and did not identify any material areas for potential clawback of funding.

Employee expenses: We established expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances.

We have outlined our consideration of the valuation of pension assets and liabilities held by the College later in this report. In respect of all pension transactions impacting the SOCIE we agreed these journals to the underlying FRS 102 report prepared by the College's actuary.

2. Risk of Misstatement due to Fraud or Error

Our Annual Audit Plan recognised that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the College's normal course of business.

Our audit procedures	Our findings
We considered the risk of fraud, inquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.	We have not identified any material weaknesses in controls or evidence of management override.
We tested 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 identified a number of manual journals requiring further consideration using criteria we established based on our understanding of the College. All journals tested were assessed as appropriate and verified to supporting documentation.
Management disclose their assessment of the critical accounting judgements and key estimates in the financial statements. We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates. We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias.	We reviewed each estimate and concluded there was no evidence of material bias. We are also content that the disclosures that management have made in the relevant section of the financial statements are appropriate.
Evaluate the business rationale for any significant unusual transactions.	No unusual transactions were identified outside the normal course of business.
Review of property, plant and equipment expenditure to ensure it fulfils the accounting requirements to be capitalised.	No issues were noted through testing performed.
We consider the consistency and application of accounting policies, and the overall presentation of financial information.	There are no accounting practices that materially depart from what is acceptable under the accounting framework.

Other Inherent Risk Areas

Our Annual Audit Plan highlighted additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

	Our audit procedures	Our findings
Valuation of Property Plant and Equipment The College's PPE portfolio totals £25.4 million. Our work focused on judgements, and accounting, in relation to the valuation of the College's land and buildings. The valuation exercise was performed by an external valuer. The College's estate has increased in value by £0.4 million due to the valuation exercise and the acquisition of new assets.	- Considered the work performed by the College's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. - Analysed the source data and made inquiries at to the procedures used by management's specialist to establish the source data as complete. - Challenged management's assessment of the estate valuation at the year end and any indicators of impairment. - Considered changes to useful economic lives as a result of the most recent valuation. - Verified that the specialist's findings have been correctly processed in the financial statements through testing of accounting entries. - Reviewed the College's backlog maintenance estates plans, including consideration of possible indicators of impairment of the existing estate and whether backlog maintenance expenditure in the year had been correctly accounted for as capital or revenue expenditure. - Tested the acquisition of new assets in the year ensuring that they were correctly accounted for.	We reviewed the assumptions used in the valuation of land and buildings and have challenged the accuracy and appropriateness of assumptions, and agreed the workings to underlying asset information. Our testing has not identified any material misstatements relating to property, plant and equipment. We do, however, note that the College has a significant level of backlog maintenance. The SFC provided additional funding of £1.3 million in relation to backlog maintenance in 2018/19, but future funding is likely to be at significantly reduced levels.

Valuation of Pension Liabilities

The College's pension fund deficit is a material estimated balance. Under the Higher and Further Education SORP (2015), the liability is disclosed on the College's balance sheet. At 31 July 2019, the College's share of the pension scheme net liability totalled £5.9 million (*2017/18: £2 million*) and the present value of the unfunded obligation in relation to early retirements agreed in previous years is £0.2 million (*2017/18: £0.2 million*)

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our audit procedures

We have focused on the following areas, which are consistent with those of management:

- The reasonableness of the underlying assumptions used by the College's actuary, including those associated with recent judgements on McCloud and Guaranteed Minimum Pensions (GMP).
- Ensuring the information supplied to the actuary in relation to the College was complete and accurate.
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

We have liaised with the appointed auditor of the North East Scotland Pension Fund to obtain assurances over the information supplied to the actuary in relation to the College.

We have assessed the work of the Pension Fund actuary including the assumptions they have used by utilising our in-house experts. We have assessed both the robustness of the methodology used to derive the key actuarial assumptions and the reasonableness and consistency of the assumptions underpinning such reports, using guidance available.

We performed additional testing on the College's share of the Fund pension assets at 31 July, performing roll forward procedures on its share of assets from 31 March to the College balance sheet date.

We assessed the approach taken by the actuary to account for the estimated impact of the recent rulings made around the McCloud judgement and various rulings around GMP.

We reviewed the calculation of the College's early retirement liabilities at 31 July 2019.

Our findings

The initial actuarial valuation report that the College obtained to support the draft financial statements had accounted for the impact of McCloud, but not of GMP. Our analysis of the potential impact of this ruling on the College concluded that any impact would not be material to the financial statements.

In calculating the scheme assets as at 31 July 2019 the actuary performs a roll forward technique using investment returns and cash flow data since the last triennial valuation. We have considered the reasonableness of the reported asset position and note that the actuary's estimated investment returns were consistent with actual investment returns.

Assumptions used by the actuary and adopted by the College are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

No material misstatements were identified relating to the valuation of pension liabilities for the work outlined above.

Looking ahead

Recommendation 1:

The College should conduct an impact assessment on the implementation of the revised SORP.

Updated Statement of Recommended practice: accounting for further and higher education 2019 edition

The Statement of Recommended Practice (SORP): accounting for further and higher education has been updated to reflect the amendments made to FRS 102 following its triennial review in 2017. The revised SORP will be effective for financial periods beginning on or after 1 January 2019 and therefore will be applied by the College within their 2019/20 financial statements.

The triennial review was published by the Financial Reporting Council in December 2017. The majority of amendments were editorial in nature and clarified rather than changed accounting treatment. The amendments to the SORP follow a similar basis and it is not therefore anticipated that the College will be required to adopt substantive changes to accounting treatments. We do, however, anticipate that the College will be required to adopt a number of changes to disclosure requirements.

We will work with management during 2019/20 to ensure the correct application of the new requirements.

Wider Scope Dimensions

Introduction

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the College's arrangements for each of the wider scope audit dimensions. We apply our professional judgement to risk assess and focus our work.

In accordance with Audit Scotland planning guidance, for 2018/19 we have assessed it is appropriate to classify the College as a smaller body for the purposes of our wider scope audit consideration.

As a result, our work has focused on our consideration of the College's arrangements to secure financial sustainability and governance and transparency matters. The judgement of applying the smaller body clause is revised annually to reflect that the risks to wider scope dimensions may change.

Under the smaller body provision we will consider:

- **Financial Sustainability:** the College's medium and longer term outlook to determine if planning is effective to support service delivery. This includes arrangements to develop viable and sustainable financial plans.
- **Governance and Transparency:** the appropriateness of the disclosures in the governance statement and whether they accurately reflect our knowledge of the College. We also consider the effectiveness of governance arrangements, and transparent reporting of financial and performance information.

Financial Sustainability

In September 2019, the College prepared a five year Financial Forecast Return (FFR) for the Scottish Funding Council, which identified a deficit of over £7 million in the period to 2023/24. The College has worked closely with the RSB to review the assumptions within the submitted draft FFR and has identified additional cost savings for 2019/20. As a result, the deficit over the period of the plan has fallen to £1.9 million. Further work is required to develop a robust recovery plan that supports the financial sustainability of the College, while responding to additional cost pressures such as the estates maintenance backlog.

The College was unable to approve a balanced budget for 2019/20, and has been required to seek and receive assurances from UHI about funding to support the cash position in 2019/20.

RED

The context for financial sustainability in the College sector

In June 2019, Audit Scotland published their annual report on the further education sector, *Scotland's Colleges 2019*. The report provides an overview of college finances based on the latest annual financial statements and financial forecast returns. The sector reported an improved, but marginal underlying surplus in 2017/18 but the report notes a widening gap between college's income and expenditure. Twelve incorporated colleges, including Moray College, currently forecast recurring financial deficits by 2022/23.

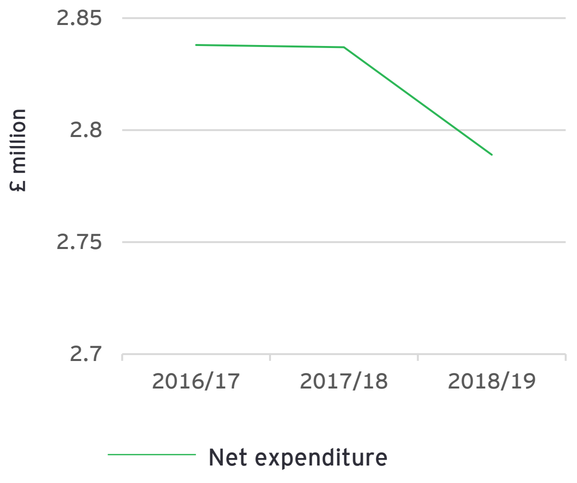
Scottish Government revenue funding to the sector has increased year on year since 2016/17 in real terms, but this increase has solely related to funding the costs of harmonising staff terms and conditions. This means that there has been limited additional funding for cost pressures such as cost of living increases, increases in employer pension contributions and inflationary cost increases.

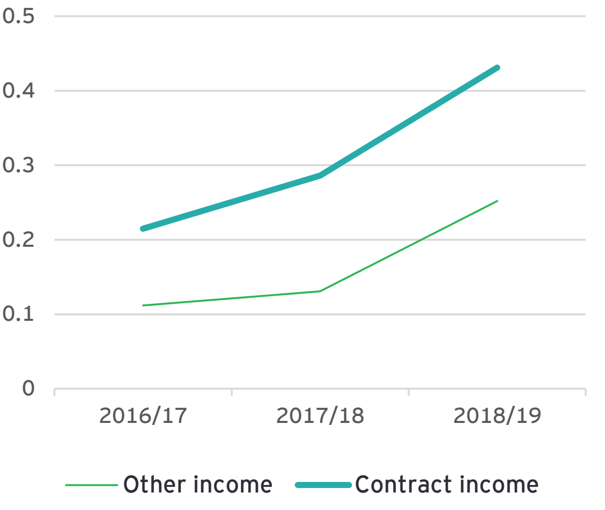
The Scottish Funding Council's 2017 estates condition survey indicates that college buildings require urgent and significant investment. Reduced capital funding poses a risk to some colleges' ability to continue to deliver their core services in a safe environment and to invest in new technologies to generate efficiencies and enhance the student experience.

Significant and ongoing financial challenges

The College has experienced significant financial challenges in recent years. In 2015/16, the Auditor General for Scotland presented a report to the Public Audit and Post Legislative Scrutiny Committee (under Section 22 of the Public Finance and Accountability (Scotland) Act 2000) which raised concerns about financial management and financial sustainability at the College. A financial recovery plan was put in place which has been implemented by the College over the last three years. As we highlight within Exhibit 2, throughout the period of the financial recovery plan, the College has been able to demonstrate an improved financial position.

Exhibit 2: The College implemented a 3 year financial recovery plan, which has reduced operating expenditure and increased other income over the period.





Source: Moray College Financial Statements

The College's financial position recovered during the period of the financial recovery plan. In 2018/19, the College reported an underlying operating surplus of £96,000 (2017/18: £160,000). For the last two financial years, the College has had positive cash balances and, unlike previous years, has not relied on cash advances from UHI to support operational expenditure. However, the College's financial position has relied on a number of factors in 2018/19, including:

- SFC funding to assist with some backlog maintenance;
- one off sources of income, including a net VAT refund of £90,000;
- a budgeted financial turbulence payment from the RSB of £50,000; and
- year 2 of transitional FE funding support from UHI of £153,000.

We reported within our 2017/18 Annual Audit Report that material progress in recovering and improving its financial position had been achieved in the period to 2017/18, but we noted that the financial environment continued to be challenging, and there were material risks to the achievement of the financial plan.

Our analysis of the assumptions used within the financial planning process in 2017/18 was that they should be kept under review and flagged to the RSB where subject to change. In particular, we noted that there were material uncertainties attached to the assumptions adopted within the College's financial plan that were outwith the College's control.

Medium term financial strategy and plan

The College has prepared five-year financial forecasts for the period 2019 to 2024 and submitted these to the SFC in the form of the template Financial Forecast Return ('FFR'). The forecast was based on assumptions provided by the SFC in addition to College specific assumptions for areas such as other income and staff numbers.

At the time of submitting the FFR, in September 2019, the College board wrote to the Scottish Funding Council and the Auditor General for Scotland to highlight the significant financial pressures in the short and medium term, and that the College had been unable to set a credible budget for 2019/20.

The College has noted within the FFR that a number of the risks we noted in 2017/18 have now crystallised. Significant variables that impact the projected financial position in 2019/20 include:

- the College has identified unexpected consequences of the national bargaining terms and conditions, which it estimates result in additional costs of £230,000;
- the College's assumption that cost of living increases would be around 2% has been revised to 3% per annum, at an additional cost of £340,000; and
- the College is also in dispute with the University of the Highlands and Islands (UHI), as the Regional Strategic Body, about the distribution model used to allocate FE funding, which has an additional impact of £70,000.
- The College understood that the transitional FE funding support from UHI was available to offset a permanent reduction in Remoteness & Rurality Funding and Extended Learning Support of £0.5 million over three years. The transitional funding was first paid in 2017/18 but withdrawn for 2019/20, with a budget impact of £153,000.

The FFR has highlighted a significant worsening position as a result of changes in funding that are outwith the College's control.

During the course of the audit, the College Board engaged with UHI, as the Regional Strategic Board, to gain assurances on support for the short term financial position. The College has also worked with UHI to identify options to improve the longer term financial forecast. UHI has identified a range of potential improvements in the funding position, including assumptions about the funding of increased teachers pension costs. The College has also identified further savings of £220,000 in 2019/20 to mitigate the risk to the cash flow position.

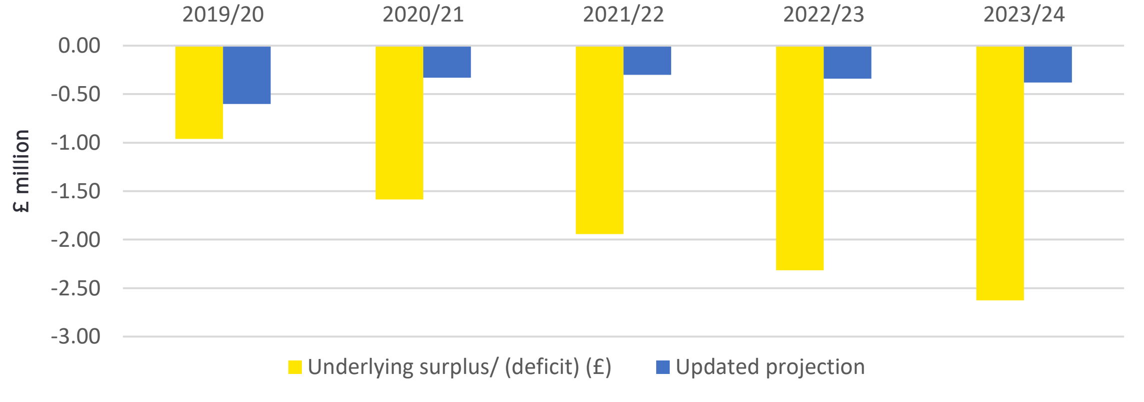
Recommendation 2: The College must work with the RSB to urgently identify a short and medium term approach to delivering financial sustainability.

Financial Planning

The College has not yet submitted an updated 5 year FFR but, as Exhibit 3 demonstrates, early work suggests that the financial position should be significantly improved against the original forecasts. The original FFR identified a deficit of over £7 million in the period to 2023/24. The amended deficit over the period of the FFR is £1.968 million. Improvements include:

- Changes in assumption about the expected cost of living increases (£800,000)
- Removal of Teachers Pension cost increases, following SFC guidelines that these will be funded (£1.3 million)
- Increased HE income, including a new Optometry programme (£1.3 million)
- Projections for the impact of the Moray Growth Deal, including Strategic Investment Funding (£850,000).

Exhibit 3: The College's FFR highlights that the College is forecasting accounting deficits in each of the next five years. The budget gap is estimated at £7.1 million by 2023/24.



Source: Moray College Financial Forecast Return, September 2019 and updated position, December 2019

The College must ensure that these projections are subject to regular review to allow the impact of changes to workforce planning to be managed. The College has also identified savings options over the medium term, although this work is at an early stage of development. We also, note that further work is necessary to mitigate the financial sustainability risks identified in the FFR, including technology and estate that management consider is not fit for purpose.

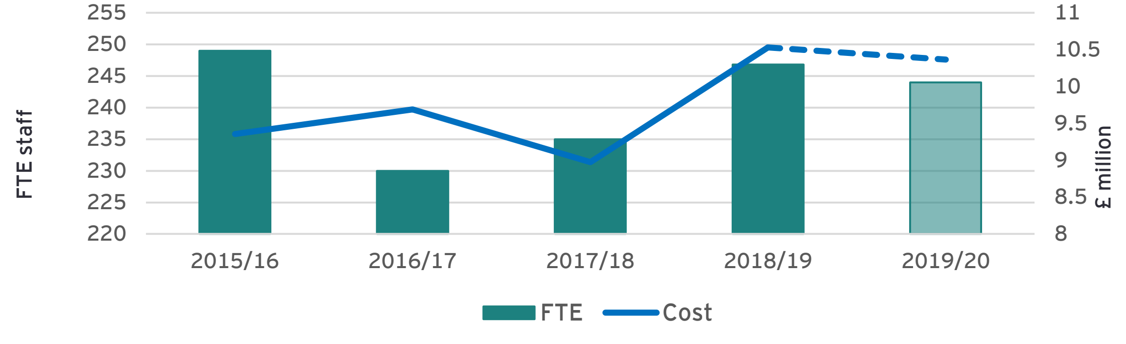
Recommendation 3: Strategic and financial planning must be underpinned by a robust workforce plan.

Workforce Planning

Around 75% of the College's expenditure relates to staffing costs. We note that the Voluntary Severance Scheme agreed with the SFC as part of the financial recovery plan has not delivered the planned £350,000 per year savings, although as Exhibit 4 notes, around 20 posts were reduced during the period 2016-18. The College's staffing numbers increased by around 17 full time equivalent (FTE) posts in 2018/19, against a budgeted increase of 2 FTE. A number of these posts were as a result of ring fenced funding.

The College has made assumptions within its revised medium term financial plan about the impact of the Moray Growth Deal. While we recognise that the College may benefit from significant opportunities presented from the Moray Growth Deal, additional analysis is required to provide assurance that curriculum and workforce planning is sustainable in the short and medium term.

Exhibit 4: The College's staff numbers continued to rise in 2018/19, following the implementation of a Voluntary Severance Scheme in 2016.



Source: Moray College Financial Statements

Going concern

At the time of drafting the Financial Forecast Return (FFR), the College identified cash flow difficulties that meant liabilities would be unable to be paid as they fell due by March 2020. The College has made additional disclosures within the financial statements to reflect significant cash pressures identified within 2019/20. During the course of the audit, we received additional assurances, including:

- confirmation from UHI that advances in HE funding will be made available to the College, should it be needed for cash flow prior to 31st December 2020, in order that the College can meet its liabilities as they fall due; and
- review of updated cash flow projections for the 12 months from the date of signing the financial statements.

As a result, we have agreed with management's assessment that the going concern basis of accounting is appropriate.

Key risks and uncertainties

The College drew the SFC's attention to its assessment of the 7 most significant risks that may impact the delivery of the FFR (Exhibit 5 below). We note that 6 of the risks, require financial assistance from the RSB or SFC. The action taken by the College to deliver the financial recovery plan has meant that the ability to take further local risk mitigating actions are limited.

Exhibit 5: The College has identified 7 key risks that impact the College's sustainability in the medium term

Risk identified	Risk mitigating actions
1. Financial impact of unfunded Cost of Living Award for Teaching and Support Staff which have been agreed nationally, but are unfunded.	Financial assistance is required from UHI or SFC.
2. Disputed reductions in National Bargaining funding - one via SFC the other being an on-going dispute between the College and its RSB. The total cost impact to the College of both issues is a c£100,000 reduction in National Bargaining funding.	The College will continue to pursue financial disputes with UHI and SFC.
3. Additional unfunded costs of changes in teaching staff terms & conditions through National Bargaining, which are exacerbated by HE delivery arrangements in the UHI region.	Financial assistance is required from UHI or SFC.
4. Increase in employers pension contributions for teaching staff, where only part funding has been confirmed (which covers September 2019 to March 2020)	Financial assistance is required from UHI or SFC.
5. Significant reduction in FE allocation as a result of removal of transitional & financial turbulence funding, which totalled c£200k in AY18/19 and in £nil in AY19/20 and onwards. This is compounded by the 4% reduction in regional FE funding for UHI over the next 5 years.	Financial assistance is required from UHI or SFC.
6. Estate and Technology not fit for purpose	Financial assistance is required from the SFC.
7. Failure to meet FE & HE targets due to changing demographic in the UHI region.	The College is developing its curriculum to meet the needs of the local and wider UHI community. In addition, flexible learning opportunities have been introduced to attract more students.

Source: Moray College FFR September 2019

Governance and Transparency

The College has conducted a self assessment against the 2016 Code of Good Governance for Scotland's Colleges, and identified two areas of non-compliance. The College has also made robust disclosures within the Annual Governance Statement relating to the risk to the financial sustainability of the College, and has raised matters with the RSB to seek a resolution. The College must work in partnership with UHI to deliver priorities while responding to a significantly challenging financial environment.

The College continues to embed its risk management arrangements and we concluded that the College's preparations for EU withdrawal appear appropriate.

AMBER

Governance arrangements

The College has in place the key requirements for good governance. We consider the following to be examples of good governance:

- The Board and committee minutes and set out the matters considered and discussed.
- The Board has approved detailed terms of reference for its standing committees which are subject to regular review.
- The College publishes Board and standing committee agendas, minutes and papers on their website in a timely manner and information, including financial performance.

Annual Governance Statement

We reviewed the Governance Statement within the financial statements against the requirements outlined in the SFC's 2018/19 Accounts Direction. This includes the requirements to conclude on the College's compliance with the 2016 Code of Good Governance for Scotland's Colleges, or to explain any areas of non-compliance. Our consideration of the governance statement has included:

- Ensuring that the College has met all requirements of the SFC's 2018/19 Accounts Direction
- Ensuring that the content of the statement is consistent with our understanding of the College's governance arrangements and any issues identified during the year
- Ensuring that the College has performed a self-assessment of compliance with the Code of Good Governance for Scotland's Colleges. Two areas of non-compliance have been identified and this assessment is reflected within the Statement.

We concluded that the Annual Governance Statement meets the requirements of the Accounts Direction and is consistent with our knowledge of the College.

The College has identified two areas of non-compliance with the Code of Good Governance.

Going Concern

The College has used the Governance Statement to make disclosures about the short term financial difficulties within the section on going concern. The College considers there to be insufficient working capital to continue operating for the next 12 months without financial support.

The disclosure notes that the Board of Management share the concerns raised by College management, and that they have concluded that without additional financial support from the RSB or the SFC, the College is not in a financially sustainable position.

Prior Year recommendation follow up

We have reviewed the College's actions in response to prior year recommendations in Appendix E. We noted that good progress has been made in relation to the 3 recommendations that we raised in 2018/19. We note in particular that the Board has taken steps to continue to review the effectiveness of committees.

The Board's internal auditors have also conducted follow up work to assess the level of compliance with internal audit recommendations. They concluded that good progress had been made addressing outstanding actions from previous years, with all matters now formally agreed as complete.

Systems of internal control

Within the annual governance statement, the College has concluded that they have obtained reasonable assurance that the system of internal control was operating effectively during the year with no exceptions or issues identified.

Through our audit of the financial statements, we have tested the design and implementation of key controls related to areas of significant risk to the financial statements. This work has included documenting the key internal financial controls and performing walkthroughs to ensure controls are operating as designed. Based on the work undertaken, our work has not identified any significant weaknesses in the College's systems of internal control.

National Fraud Initiative (NFI)

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The NFI exercise produces data matches by comparing a range of information held on public bodies' systems to identify potential fraud or error.

We submitted an assessment of the College's participation in the exercise to Audit Scotland in June 2019. We concluded that the College has actively participated in the NFI exercise and that it is well embedded within the College's Fraud Policy and Response Plan.

While risks remain for all public sector bodies, we are satisfied that the College's arrangements to prepare for EU withdrawal are appropriate and informed by wider sector involvement.

EU withdrawal

As in 2017/18, Audit Scotland has maintained an interest in public bodies' preparedness for EU withdrawal. We assessed the College's arrangements against three key factors, relating to the workforce, funding and regulations.

The College has a Brexit Plan is in place and has been subject to regular updates throughout the year. The Plan draws on external guidance including publications from the Scottish Funding Council. The College has undertaken a range of actions, including:

- identifying individuals that may be directly impacted, including staff and students both currently enrolled in courses and applicants for next year;
- financial evaluation of the expected impact, including European Social Funding, Erasmus and tuition fees; and
- a risk assessment on College contracts with suppliers.

Enquiries of those charged with governance

During 2018/19, we formally wrote to the Chair of the Audit and Risk Committee to make inquiries around the College's governance arrangements, including consideration by those charged with governance in respect of compliance with laws and regulations; identification of fraud, error and breaches of internal control; and material litigation and claims. No matters were brought to our attention.

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit and Risk Committee. For 2018/19, the internal auditor's opinion notes that, with the exception of Health and Safety that require significant improvement, "the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2018/19 and in prior years since our first appointment in 2011/12."

National Reports

It is important that the College has embedded arrangements to ensure that consideration is appropriately given to national reports published by Audit Scotland. We noted that the College has taken steps during 2018/19 to ensure that reports are circulated to the Audit Committee on receipt, and the impact on the College is considered at the following meeting.

Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit and Risk Committee

D – Action plan

E – Follow up of prior year recommendations

F – Adjusted errors identified during the audit

G – Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance	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.
Financial Statements and related reports	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.
Standards of conduct / prevention and detection of fraud and error	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.
Standards of conduct / prevention and detection of fraud and error	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.
Best Value	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.

Appendix B: Independence and audit quality

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.

Matters that we are required to communicate	The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 August 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.
Confirmations	We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 21 May 2019. 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 management and members of the Board consider the facts known collectively to you and come to a view.

Audit Fees

	2018/19	2017/18
Component of fee:		
Total agreed auditor remuneration *	**£13,570**	£13,260
Fee variation in respect of wider scope focus areas *	**£2,500**	£2,710
Audit Scotland fixed charges:		
Pooled costs	**£780**	£850
Audit support costs	**£820**	£740
Total fee	**£17,670**	£17,560

*During the course of the audit, additional costs have been incurred to respond to the College's increased financial sustainability risk. This work is continuing and we will discuss and agree a fee variation with management.

Matters that we are required to communicate	International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The EY 2019 UK Transparency Report, can be accessed on our website at https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf. The report explains our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it. Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ). Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures. Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.
Audit Quality Framework / Annual Audit Quality Report	Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission. We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland. The most recent audit quality report which covers our work since appointment can be found at: www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf.

Appendix C: Required Communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	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, any limitations and the significant risks identified.	Annual Audit Plan
Significant findings from the audit ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Annual Audit Plan 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	Annual Audit Report
Misstatements ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Annual Audit Report
Fraud ▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Annual Audit Report
Consideration of laws and regulations ▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Annual Audit Report (to be issued on completion of audit work) or as occurring if material.

Required communication	Our reporting to you
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	No significant matters have been identified.
Independence Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of 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 about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan This Annual Audit Report - Appendix B
Internal controls Significant deficiencies in internal controls identified during the audit	This Annual Audit Report - no significant deficiencies reported
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.
Material inconsistencies Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Annual Audit Report

Appendix D: Action Plan

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the College or management to action.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The SORP will be revised with effect from 2019/20.	The College should perform a formal impact assessment on the application of the revised SORP in 2019/20. *Grade 3*	Agreed. **Responsible officer:** Director of Finance **Implementation date:** 31 March 2020
2	The College has highlighted within its Financial Forecast Return that it continues to face significant and ongoing financial challenges. This remains a significant risk and urgent work must be undertaken in partnership with UHI to deliver a sustainable financial plan.	The College must work with the RSB to identify medium term approach to delivering financial sustainability which addresses key areas of risk including the maintenance of the College's technology and estates. *Grade 1*	Agreed. **Responsible officer:** Principal **Implementation date:** Immediate and ongoing with review by 31 March 2020
3	The College did not achieve the savings anticipated from a Voluntary Severance Scheme implemented in 2016. The College has ambitious plans for future growth, but cannot currently demonstrate a financially sustainable workforce plan.	Strategic and financial planning must be underpinned by a robust workforce plan. *Grade 1*	Agreed. **Responsible officer:** Director of HR & OD **Implementation date:** 31 March 2020

Appendix E: Follow up of prior year recommendations

This section of our report summarises our assessment of the College's progress against the recommendations that we identified during our 2017/18 audit.

Prior year recommendations			
No.	**Recommendation / grading**	**Management response/ Implementation timeframe**	**Our assessment of progress**
1	**Fixed asset register review** At the yearend audit a significant number of fixed assets with nil value which could not be verified by management remained on the fixed asset register. Management should ensure the fixed asset register is reviewed annually in advance of the financial statement audit to remove any assets which are no longer in use or whose existence cannot be verified. Grade 3	Agreed. This has been actioned for 2017/18, and will form part of annual review of fixed assets register going forward.	**Audit Assessment:** Complete
2	**Forecasting assumptions** Management should ensure that UHI, as the College's regional strategic body, and the SFC, is aware of any significant changes to assumptions for new information as it becomes available, and not just on the annual return deadline, in particular as new information materially impacts any key assumptions in future forecasts. Grade 1	Agreed. Reforecasting financial plans at the six and nine month period of the year was carried out during 17/18, and is normal practice. Recent communication from the SFC has requested a reforecast FFR after six months of 2018/19, which will be submitted via the Regional Strategic Body. In addition to the internal reforecasting process, as part of the SFC requirements of the recovery plan management has monthly meetings with the RSB to update them on the current financial position at the College, and any changes in anticipated outturn for the year. Changes are then updated on a monthly basis to the SFC.	**Audit assessment:** Ongoing. The College can demonstrate ongoing reforecasts. The risks arising from the reforecasting have been raised with the UHI, as RSB.

Prior year recommendations			
No.	**Recommendation / grading**	**Management response/ Implementation timeframe**	**Our assessment of progress**
3	**Audit Committee Working Arrangements** *A* point of improvement in the ongoing governance arrangements at the College should be to ensure the Board and committees are able to fulfil their governance and oversight roles without being drawn into involvement in management functions, potentially blurring the distinction between the executive and non-executive responsibilities at the College. This should be achieved through discussion and agreement with management. In the first instance we would recommend ensuring no draft reports are submitted to committee and Board agendas unless critical and time sensitive. Grade 1	Agreed. To address the issue of draft reports, management will prepare a timeline for approval at the next Audit Committee meeting, which will factor in suitable times for completion of Internal Audit reports with consideration of Audit Committee meeting dates. In respect of the wider governance arrangements, in particular through involvement with management as noted in the recommendation, management will arrange an informal debrief with the chair of the Board to consider the 2017/18 committee arrangements and areas where working arrangements can be enhanced going forward into 2018/19 and beyond. Any actions will be shared with the College's auditors and progress will be specifically considered as part of the Board and committee's self effectiveness review that takes place annually.	**Audit Assessment:** Ongoing. The Board has undertaken work on the effectiveness of its arrangements. We were satisfied that no draft reports were considered at the Board.

Appendix F: Errors identified during the audit

.

There were three unadjusted errors identified during the audit, which were of low value and minor in nature, as set out in the table below.

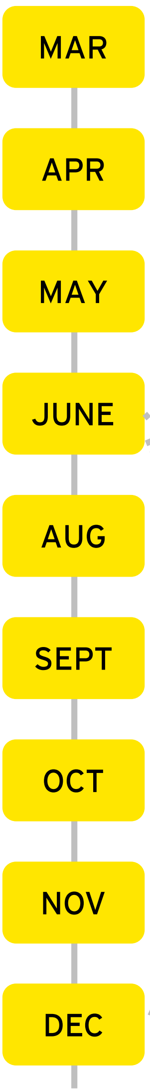
Unadjusted differences					
No.	**Description**	**Income and Expenditure Impact**		**Balance Sheet Impact**	
1	*Expenditure on asset, funded by ALF income, not capitalised*	Cr Expenditure	£63,000	Dr Fixed Assets	£63,000
2	*Correct Deferred Capital Grants split between current and non-current liabilities*			Dr DCG Liability <1 Year Cr DCG Liability >1 Year	£20,000 £20,000
3	*Account for Job Evaluation process in 2018/19*	Dr Expenditure Cr Revenue	£18,771 £18,771	Dr Deferred Income Cr Provisions	£18,771 £18,771
	Unadjusted impact	*Cr Expenditure*	*£63,000*	*Dr Net Assets*	*£63,000*

Management agreed to process the following adjustments in the financial statements:

Adjusted differences					
No.	**Description**	**Income and Expenditure Impact**		**Balance Sheet Impact**	
1	*Adjustment relating to income incorrectly deferred*	Cr Income	£15,000	Dr Deferred Income	£15,000
2	*Correct the release from the Revaluation Reserve to the General Reserve*			Dr General Reserve Cr Revaluation Reserve	£53,000 £53,000

Appendix G: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2018/19 audit cycle.



Audit Activity	Deliverable	Timing
Review of current issues impacting the College throughout the audit process	Periodic current issues return submission	22 March 2019 8 November 2019
Audit planning and setting scope and strategy for the 2018/19 audit	Annual audit plan	21 May 2019
Walkthrough visit	Completion of internal documentation	June 2019
Review progress of the NFI exercise	Submit NFI questionnaire	30 June 2019
Year-end substantive audit fieldwork on unaudited financial statements	Audited financial statements	October 2019
Conclude on results of audit procedures and finalise Annual Audit Report	Issue Annual Audit Report	31 December 2019
Issue opinion on the College's financial statements	Submit Audit Scotland Minimum dataset request	

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com