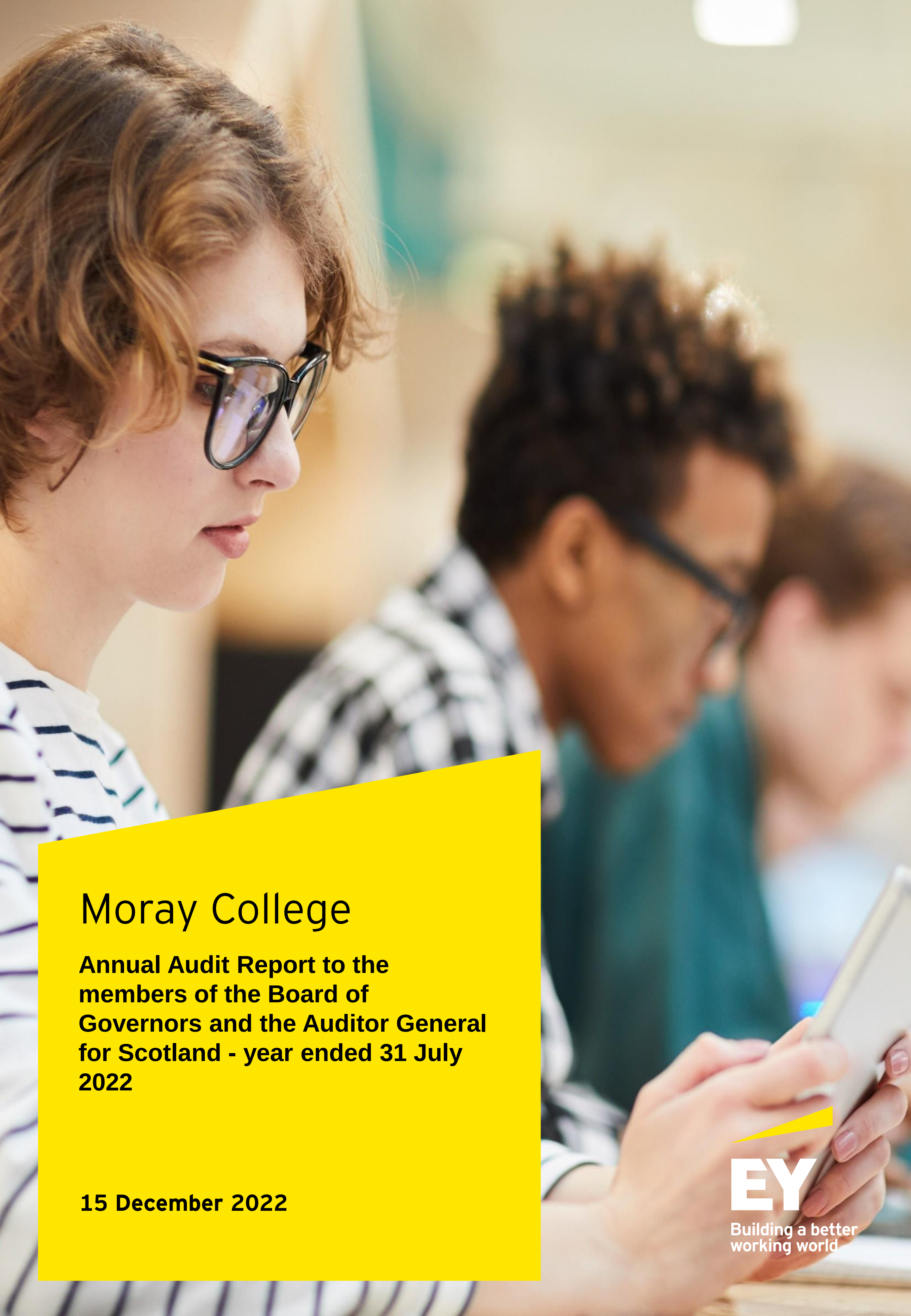


Moray College

Annual Audit Report to the members of the Board of Governors and the Auditor General for Scotland - year ended 31 July 2022

15 December 2022

EY
Building a better working world

Contents

About this report

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 2021/22. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. 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 Hywel Ball, 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 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: Key Conclusions from our 2021/22 audit

We have issued an unqualified audit opinion on the College's 2021/22 financial statements.

Financial Statements

We have concluded our audit of the College's financial statements for the year ended 31 July 2022. No audit adjustments were required to be made. Four unadjusted differences that we are required to communicate are outlined in Appendix D. The draft financial statements and supporting working papers were provided in line with the agreed audit timetable. We worked with the finance team to update the financial statement disclosures. This included additional focus on key messages relating the challenging financial environment facing the College.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the disclosures reflect the College's compliance with the *Code of Good Governance for Scotland's Colleges*.

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. Our materiality levels were amended to reflect the increase in expenditure in 2021/22.

Going Concern

In accordance with the Government Financial Reporting Manual ('the FReM'), the College prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

Under a revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The College has concluded that there are no material uncertainties around its going concern status, however it has continued to include enhanced disclosures around its future financial position in the financial statements to reflect the impact of Covid-19 and inflationary pressures. As a result of the challenging financial outlook, confirmation was obtained to provide assurance that the SFC would support cashflow management at the College if this is required.

We have no matters to report in respect of our work around going concern or the conclusions reached by the College.

Wider Scope

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

Financial Sustainability

The financial environment in which the College operates was already challenging, and the Covid-19 pandemic alongside the impact of the economic and geopolitical environments, including supply chain challenges, has resulted in deep financial pressures, and creates a significant risk that the College will not be able to develop viable and sustainable financial plans to deliver its Strategic Plan 2022-27.

The College submitted a financial forecast return in October 2022 to the Scottish Funding Council which outlines a cumulative underlying operating deficit position over the five years of £6.8 million. We do, however, note that scenario planning using alternative assumptions agreed by the college Finance Directors Network for key uncertainties, including pay awards and underlying inflation, presents a deficit over the period of £14.9 million.

The College's cash flow forecast relies on financial support from the Regional Strategic Board to maintain cash balances. As a result, a letter of support has been obtained from the Scottish Funding Council, which recognises that short-term liquidity can be a challenge for colleges and therefore provides support including flexibility through the re-phasing of grant payments within and between academic years if required.

Governance & Transparency

The key features of good governance have remained in place at the College and have been operating effectively throughout the year. The Board of Management and committees met as planned using remote meetings. During 2022/23, the College will return to predominantly in-person meetings, but remote attendance will be facilitated to ensure inclusivity.

The Audit Committee considered its annual self-assessment against the Code of Good Governance for Scotland's Colleges in October 2022 and concluded that the College had complied throughout the financial year. The College also adopted the updated Model Code of Conduct for members of the Board of Management.

Due to resignations and the timing of completion of terms of office, seven new Board members were appointed in Spring 2022. This has refreshed the Board and allowed potential skills gaps, including finance expertise, to be met.

The College's Internal Auditor completed their programme of work, which included reviews in relation to cyber security and the new Estates Strategy. All reviews were assessed as "strong" and only 4 low graded recommendations were made.

Introduction

As a result of the impact of Covid-19, Audit Scotland agreed to extend our appointment as external auditor of the College to 2021/22.

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. Our appointment term was extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021; 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 members of the Board of Governors 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 arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

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 College's Audit Committee in June 2022.

We updated our assessment of materiality based on the 2021/22 financial performance of the College. Planning materiality was increased from £285,000 to £300,000.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £285,000. We considered whether any change to our materiality was required, including due to the College's 2021/22 financial performance. Due to the increase in the expenditure of the College since 2020/21, we increased the materiality to reflect this.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Overall Materiality	Tolerable Error	Nominal amount
£300,000	£225,000	£15,000
2% of the College's operating expenditure	Materiality at an individual account level	Level that we will report to committee

Based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

Financial statement audit

We are responsible for conducting an audit of the College's financial statements. We provide an opinion as to:

- whether they give a true and fair view of the state of affairs of the College as at 31 July 2022 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).

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

Wider Scope audit

As public sector auditors, our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice requires auditors to provide judgements and conclusions on the two dimensions of wider scope public audit set out in the Code which comprise the wider scope audit for small public sector bodies in Scotland:

- Financial sustainability; and
- Governance and transparency.

Our findings are summarised in Section 3 of this report.

Financial Statements audit

Introduction

The financial statements provide the College with an opportunity to demonstrate accountability for the resources that it controls, and report on its overall performance in the application of those resources during the year.

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.

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).

Compliance with Regulations

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 (SFC), the Charities and Trustees Investment (Scotland) Act and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

The draft financial statements and supporting working papers were submitted for audit in line with planned timescales.

Management provided draft financial statements at the start of the audit, in line with the agreed timetable. The financial statements were updated for the new requirements as outlined in the SFC's 2021/22 Accounts Direction for colleges.

Audit Outcomes

There were no audit differences arising from the audit which required to be adjusted. Four unadjusted differences are outlines in Appendix D.

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 2022 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 2021/22 financial statements for the College.
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.	In accordance with the work reported in this report, our audit opinion is unqualified in this respect.
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

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.

As outlined in our audit planning report, we rebut the risk of improper recognition of SFC core grant funding because there is no judgement in respect of this income stream. With regards to expenditure, we rebut the risk of improper recognition of payroll expenditure.

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 test all relevant income and expenditure policies against the relevant accounting standards and SORP;
- Review, test and challenge management around any accounting estimates on income and expenditure recognition for evidence of bias;
- Develop a testing strategy to test all material income and expenditure streams;
- Test all material grant income with performance conditions to ensure income is recognised correctly in line with the outlined requirements;
- Review and perform focused testing on income and expenditure around the year end to ensure correct recognition around cut-off between financial periods;
- Perform testing for any evidence of clawback of income where conditions for entitlement have not been met;
- Review and develop a testing strategy for Covid-19 related income streams, including additional Covid-19 related grant income; and
- Assess and challenge manual adjustments or journal entries by management around the year end for evidence of management bias and evaluation of business rationale and evidence.

Our conclusions

- Our testing did not identify any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
- We identified two minor audit differences in respect of our detailed testing of income and expenditure, which are outlined in Appendix D.
- We have assessed the treatment of Covid-19 related income streams, including additional Covid-19 related grant income. We concur with management's accounting treatment for the revenue streams.

Risk of management override

Our Annual Audit Plan recognises 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.

Risk of Fraud

We considered the risk of fraud, enquired 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.

Testing on Journal Entries

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 potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- Journals entries made around year end; and
- Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

Our conclusions

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

Judgements and Estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and was applicable to the 2020/21 audit for the first time with a continuing focus in 2021/22. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes; and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process-estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate estimate.

We reviewed each significant accounting estimate for evidence of management bias as outlined above, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements.

Accounting Policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the College to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under the Further and Higher Education SORP 2019.

Our conclusions

- We did not identify any areas of significant estimation or judgement as part of our audit work where we disagreed with management over the accounting treatment.
- There were no significant accounting practices which materially depart from what is acceptable under the College's financial reporting framework.

Valuation of Property, Plant and Equipment

The College's property, plant and equipment (PPE) portfolio totals £32.1 million of assets (2021: £24.9 million). The valuation of these assets requires expertise and significant estimation. To meet the requirements of the accounting framework, the College values its property, plant and equipment on at least a 5 yearly cycle with regular desktop valuations in interim years.

Land and Buildings were subject to an interim independent valuation for the purpose of the financial statements in 2021/22 by J & E Shepherd Ltd, in line with the revaluation policy. The impact of the revaluation was a net increase in the value of land and buildings of £4.9 million.

To address the significant risk, our work focused on the following key areas:

- 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.
- Sample tested key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. cost data used to determine the DRC valuation).
- Assessed the accounting for costs incurred to date in respect of the on-going campus maintenance and upgrades ensuring an appropriate split between revenue and capital expenditure.
- Completed procedures designed to address the requirements of the revised ISA 540.

Our conclusions

- As a result of our review, we are satisfied that the revaluation at year-end has been appropriately reflected in the financial statements and that the categorisation of expenditure on the campus was appropriate.

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 our inherent risk area is summarised below.

Valuation of pension assets and liabilities

The College participates in two pension schemes: the Local Government Pension Scheme, North East Scotland Pension Fund (NESPF) and the Scottish Public Pensions Scheme (SPPA). At 31 July 2022, the College's share of the local government pension scheme was £408,000 net liability (2020/21: £5.5 million net liability).

The present value of the unfunded obligation in relation to early retirements agreed in previous years was £121,000 (2020/21: £150,000).

Accounting for both schemes 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 approach included:

- obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of actuarial assumptions underpinning such reports in conjunction with our internal specialists;
- performing substantive testing on the verification of the pension assets. Specifically, we engage with the auditor of NESPF in line with the assurance protocols laid out by Audit Scotland. We also analysed the fund's estimated asset position at 31 July 2022 from the prior year end against expectations based on equity and other market movements;
- developing our own point estimate for the College's liabilities in the Fund and comparing to the actuary's assessment;
- assessing the work of the actuaries in considering the impact of legal rulings impacting the liabilities in the fund; and
- reviewing the calculation of the College's valuation of future early retirement liabilities at 31 July 2022, including the integrity of the underlying pensioner data used by the actuary and College.

Our conclusions

- We assessed the reasonableness of the calculation of the College's share of the Fund's assets and liabilities and concluded these are consistent with our expectations. No issues were reported by the auditor of the Fund in respect of the Funds controls or reported asset position.
- 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.

Going concern

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the FReM, the College shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity.

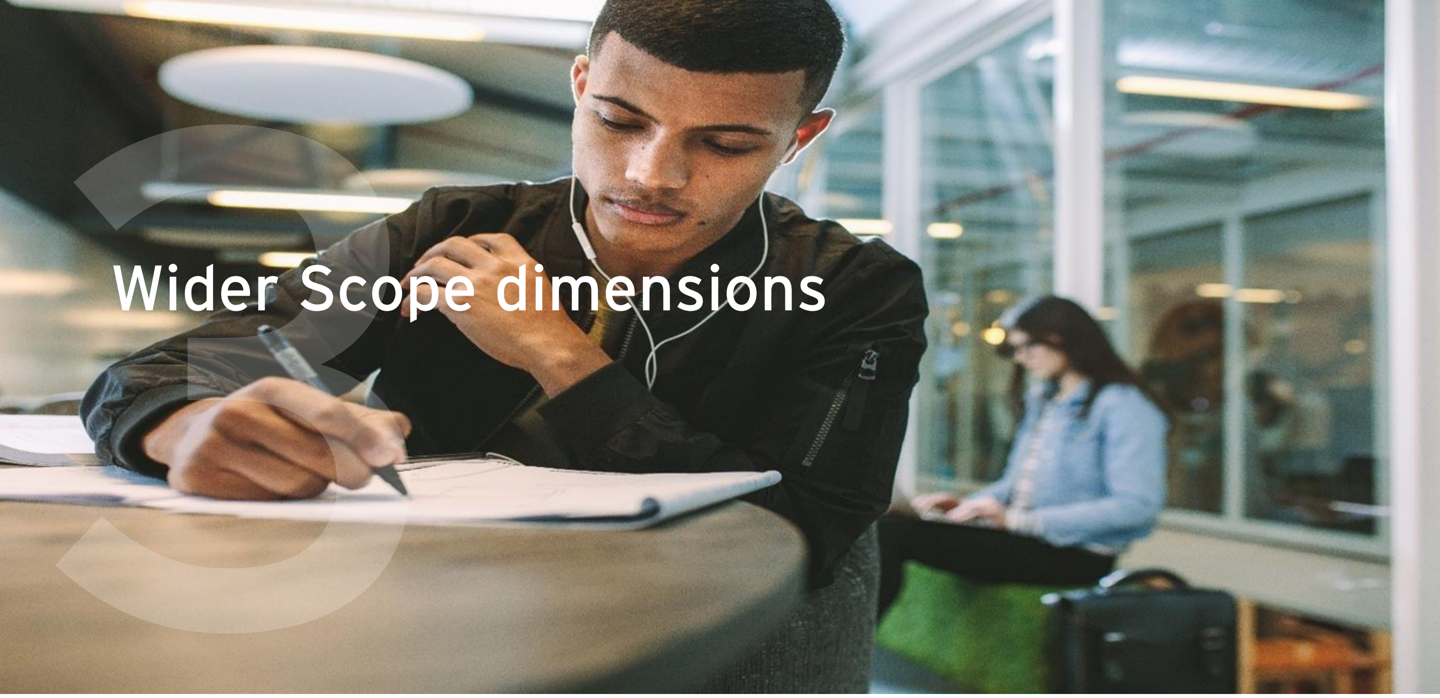
However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the College and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to December 2023.

After completing its going concern assessment in line with the information and support provided from the SFC during the audit process, the College has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the College's financial position going forward in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- the completeness of factors considered in management's going concern assessment;
- the integrity and robustness of the underlying cash flow forecasts supporting future financial projections, in particular if the College projects to require financial support during the going concern assessment period; and
- the completeness of disclosures in the financial statements in relation to going concern and future financial performance in line with the requirements of the SFC 2021/22 Accounts Direction.

Our conclusions

- We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key College reports and financial forecast returns.
- Due to the challenging financial outlook, a letter of support was obtained to provide assurance that the SFC would support cashflow management at the College if this is required.



Wider Scope dimensions

Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the College's arrangements for the two wider scope audit dimensions that apply to smaller public sector bodies under the Code of Audit Practice.

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the College's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

The Wider Scope dimensions

- **Financial Sustainability:**
- Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.
- **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.

Financial Sustainability

Our overall assessment: Red

The financial environment in which the College operates was already challenging, and the Covid-19 pandemic alongside the impact of the economic and geopolitical environments, has resulted in further, significant financial pressures, and creates a significant risk that the College will not be able to develop viable and sustainable financial plans to deliver its Strategic Plan 2022-27.

The College submitted a financial forecast return in October 2022 to the Scottish Funding Council which outlines a cumulative underlying operating deficit position over the five years of £6.8 million. It's scenario planning, using alternative assumptions agreed by the College Finance Directors Network for key uncertainties, including pay awards and underlying inflation, presents a deficit over the period of £14.9 million. The College's cash flow forecast relies on financial support from the Regional Strategic Board to maintain cash balances. Due to the challenging financial outlook, confirmation was obtained to provide assurance that the SFC would support cashflow management at the College if this is required.

The context for financial sustainability in the College sector

The Scottish Government's 'Resource Spending Review' was published on 31 May 2022 and sets out the high level parameters for resource spend within future Scottish budgets up to 2026-27. The plan is focused on how the Scottish Government will allocate funding to achieve their strategic outcomes and priorities:

- Tackling child poverty;
- Addressing the climate crisis;
- Securing a stronger, fairer, greener economy; and
- Delivering excellent public services.

The review sets out that there will be no increases to the Scottish Funding Council budget, who in turn provide funding to the College sector. While the spending review is not a finalised budget, it provides the sector with an indication of likely funding allocations. Colleges Scotland estimates that Colleges are facing a real terms budget cut of £51.9 million in 2022/23.

The Scottish Parliament's Finance and Public Administration Committee launched a call for views on Scotland's public finances and the impact of both the cost of living crisis and public service reform in August 2022. This consultation has included seeking views on the priorities within the Resource Spending Review and how the Scottish Government should respond to inflationary pressures and the cost of living crisis within its 2023/24 budget.

The Scottish Funding Council published their report, 'Financial Sustainability of Colleges and Universities in Scotland' in March 2022. This paper set out that the sector had managed the impact of Covid-19 more positively than originally anticipated however the longer term financial sustainability remains challenging.

Under the SFC projections, the sector collectively was expected to deliver a combined surplus of £16.7 million in 2020/21, deteriorating to a deficit of £5.6 million in 2021/22.

The Covid-19 pandemic led to increased reliance on SFC income across the College sector, which will create further challenges if flat cash settlements occur in future financial years.

Colleges remain heavily dependent on SFC grant funding with this income accounting for 79% of total income at a sector level in 2020/21. This illustrates the reliance that colleges have on funding which is expected to reduce in real terms moving forward. For colleges to remain financially sustainable, growth in other income as well as reductions in their cost base will be required. The continued impact of Covid-19 has resulted in challenges for colleges to achieve their student recruitment and retention targets as well as other income targets.

The Scottish Government and SFC are starting to take forward the recommendations within the SFC review on the provision and sustainability of further and higher education and research across Scotland, published in June 2021. The current financial outlook stresses the importance of the recommendations within this review being implemented as early as possible. A further update is expected in 2023 when the Scottish Government is due to set out the future role of the college and university sectors.

The turbulent financial environment creates significant challenges for college's ability to prepare robust financial plans.

Financial position

The College reported a operational deficit for the year of £0.78 million (*2020/21: deficit of £0.85 million*). Following an actuarial gain of £20.1 million and a revaluation gain of £4.1 million, the College reported total comprehensive income of £21.5 million (2020/21: £16 million). The College broke-even after removal of non-cash accounting adjustments relating to pension and capital accounting (2020/21: deficit of £15,000).

2021/22 was the second full financial year that the College had operated in the context of Covid-19 and the pandemic continues to have an impact on student recruitment and retention. However, the College was able to improve upon projections within the 2021 Financial Forecast Return. An anticipated deficit of £1.1 million was avoided as a result of additional income from the SFC, higher than forecast commercial income, and management of pay and non-pay costs. In line with previous years, the College's financial performance was monitored throughout the year by the Senior Management Team and the Finance and General Purposes Committee (FGPC).

We note that throughout the year there was significant uncertainty relating to the likelihood of clawback of SFC funding in relation to deferred credits. This impacted the ability of the College to present forecast information with certainty, although prudent assumptions were made.

The FGPC also considered regular reporting on capital spend, including the College's approach to backlog maintenance. Projects undertaken in 2021/22 include fire safety works, office refurbishments and reactive maintenance. All maintenance works are subject to funding availability from the SFC.

Medium term financial forecasting

The College prepared a five-year financial forecast for the period 2022 to 2027 and submitted this to the SFC in the form of the template Financial Forecast Return ('FFR'). Two scenarios for the FFR were presented to the College's Finance and General Purposes Committee:

- Scenario 1, based on SFC assumptions.
- Scenario 2, based on assumptions agreed by the Colleges Finance Directors' Group.

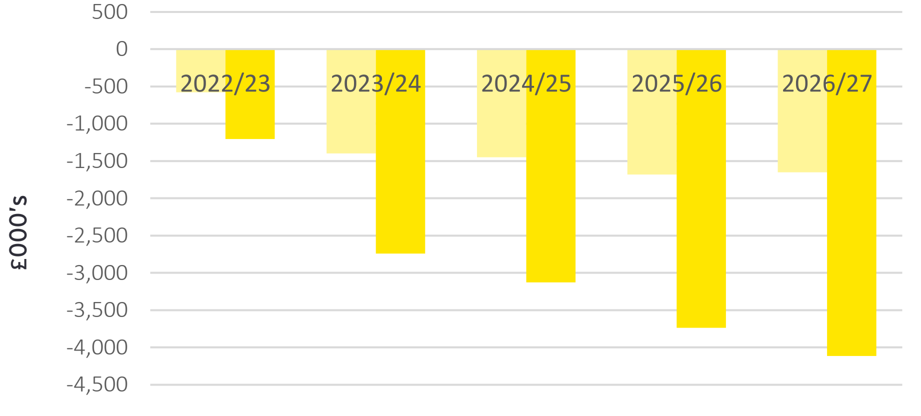
The College Finance Directors' Network Group consider that the assumptions set by the SFC are optimistic. An alternative scenario has been modelled to provide a range of likely outcomes for financial planning and monitoring.

Each scenario presents a challenging outlook for the College. We outline the impact of two scenarios in Exhibit 1, and note that Scenario 1 results in an underlying deficit over the period of £6.8 million. The equivalent deficit under Scenario 2 is £14.9 million. The key difference in the scenarios relate to:

- Assumptions about pay award. The SFC (Scenario 1) forecasts that pay will increase in line with the 2022/23 public pay policy. Under current negotiations education Trade Unions have requested a £5,000 pay-rise for all scale points for FY 22/23, and as a result Scenario 2 allows for a 5% pay increase in 2022/23 and 2023/24, and a consolidated 3% increase for each subsequent year.
- Assumptions about operating cost. SFC assumptions allow for an increase of 3.7% in 2022/23, falling to 2.0% by 2024/25. Scenario 2 reflects increased operating costs of 9% in 2022/23, and makes specific allowance for the increase in gas and electricity prices, including the gas unit price increase of 230% in 2022/23.

Recommendation 1: The Board must develop a sustainable financial plan as a matter of urgency.

Exhibit 1: The College's FFR scenarios highlight the significant financial challenges facing the College in future periods and the significant savings and income growth required to deliver a balanced budget.



Source: Moray College Financial Forecast Return, October 2022

Projected income

While the College delivered 19,033 FE credits in 2021/22, an increase of 32% on the prior year, the College has agreed a reduced student credit target for the period of the forecast. HE student numbers remain challenging. One of the legacies of the pandemic has been that many students that would normally be expected to enrol at college have opted to stay at school, or to go straight to University. As a result, the College predicts that HE income will not return to pre-pandemic levels within the forecast period. An expected flat cash settlement means that SFC income is predicted to be lower than in prior years.

We noted in 2020/21 that following three years of a Financial Recovery Plan, there were limited opportunities to make further non-pay cost savings. This has been exacerbated by the inflationary financial environment. The majority of the College's costs relate to staffing and this area therefore remains the key mechanism available to the Board to deliver financial balance. During 2021/22, eight members of staff left the College through a voluntary severance scheme, funded via sustainability funding from the SFC. The Board has not yet identified any further staffing reductions because of the significant impact it would have on the curriculum the College is able to offer, and therefore on credit targets in future years. The Board also hopes to protect staff numbers to support the delivery of the Moray Growth Deal, which is anticipated to create significant new demand.

Other income

Audit Scotland note within Scotland's Colleges 2022 report that colleges are increasingly reliant on public funding. Across Scotland, other income fell by 14%, mainly due to the loss of commercial income. The College Board considered a Commercial Income Strategy in March 2022, which recognised the need to develop sustainable additional income streams. The strategy aims to maximise income that generates profit, and establish a robust process to identify new sources of commercial income.

In 2021/22, the College exceeded its commercial income targets, achieving additional income of £404,000, including £178,000 from the Flexible Workforce Development Fund (FWDF) . However, the FFR continues to predict that SFC funding will account for over 75% of the Colleges income.

Engagement with UHI

The College Board continues to work with UHI, as the Regional Strategic Board, to develop a financially sustainable plan for the UHI partnership. Work is ongoing on proposals to develop shared services, and other efficiencies, across the partnership, along with reform of the operation of the Executive Office. As part of the College's contribution to the change agenda, the Director of Finance has assumed responsibility for UHI Shetland, alongside her substantive post.

Impact of Moray Growth Deal

The College continues to act as a lead partner for the development of Moray Growth Deal projects. The MAATIC project aims to provide training, innovation and research development to support aerospace enterprises, and development of advanced engineering skills in the region's workforce with specialisms in aviation, aerospace, and digital manufacturing. The College believes it will establish the area as a centre for excellence in aviation, aerospace, and digital manufacturing engineering.

A separate project, the Business Enterprise Hub will support existing small and micro-businesses in the area, which it is hoped will strengthen research and the College's curriculum. The College has recently been awarded Just Transition Funding of £0.2 million to conduct feasibility studies to support the Green Economy and inform the future curriculum of the College. The College's ambitions rely upon successful delivery of these projects to secure the long-term viability of the College.

Going concern cash flow forecasting

We outlined our work in respect of going concern earlier in this report. While the College has prepared its financial statements on a going concern basis as required by the FReM for a public body, it is required to consider its ability to meet liabilities as they fall due over the going concern assessment period to December 2023, being 12 months from the approval date for the financial statements.

As part of its financial forecasting arrangements the College has forecast its cash flow during this period, which includes modelling the impact of SFC and other sensitivities. This may continue to be impacted by the current uncertainty around the 2022/23 and 2023/24 academic years as a result of pay and other inflationary pressures. As part of the FFR submission, the College has projected cashflows to 31 July 2023 using the optimistic assumptions provided by the SFC. Despite this, the exercise demonstrates that there may be a requirement to manage cash flow requirements through the rephasing of grant payments from the Regional Strategic Body.

This demonstrates the volatility and uncertainties surrounding the College's current financial position. Should significantly higher pay rises be agreed, without additional funding from the Scottish Government, the College will require more financial support from the Regional Strategic Body. As a result of the uncertainty, the College Board has sought and received a letter of support from the SFC which states that they will 'we will work with the sector and individual colleges and regions to help manage cash flow requirements, for the period of 12 months from the date of approval of your balance sheet. This support may be through the re-phasing of grant payments within and between academic years if required.' The Board is therefore satisfied that it will continue to be able to pay its operating expenses as they fall due.

Governance and Transparency

Our overall assessment: Green

The key features of good governance remain in place at the College and have been operating effectively throughout the year. The Board of Management and Committees met as planned using remote meetings. During 2022/23, the College will return to predominantly in-person meetings, but remote attendance will be facilitated to ensure inclusivity.

The Audit Committee considered its annual self assessment against the Code of Good Governance for Scotland's Colleges in October 2022 and concluded that the College had complied throughout the financial year. The College also adopted the updated Model Code of Conduct for members of the Board of Management.

Due to resignations and the timing of completion of terms of office, seven new Board members were appointed in Spring 2022. This has refreshed the Board and allowed potential skills gaps, including finance expertise, to be met.

The College's Internal Auditor completed their programme of work, which included reviews in relation to cyber security and the new Estates Strategy. All reviews were assessed as "strong" and only 4 low level recommendations were made.

Annual Governance Statement

The College has demonstrated through the year that it has the key requirements for good governance. The key aspects of governance arrangements require to be disclosed in the Annual Governance Statement within the financial statements. We reviewed the governance statement against the requirements outlined in the SFC's 2021/22 Accounts Direction and our understanding of the College up to 31 July 2022.

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 2021/22 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; and
- Ensuring that the College has performed a self-assessment of compliance with the Code of Good Governance for Scotland's Colleges and that this assessment is reflected in the statement.

We were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and the Audit Committee's assessment of compliance with the Code of Good Governance for Scotland's Colleges in October 2022. The College also adopted a Revised Model of Conduct for the Board of Management.

Governance Arrangements

Like all other public bodies in Scotland, the College moved to revised governance arrangements at the beginning of the UK lockdown period. Throughout 2021/22, all Board and committee meetings continued to be held as scheduled via remote working arrangements, and all relevant business continued to be considered as required.

While these arrangements have worked effectively, the Board has recently elected to return to predominantly in-person meetings, but remote attendance will be facilitated to ensure inclusivity.

During Spring 2022, seven new Board appointments were made to refresh the Board following the end of a number of terms of office, and to address specific skills gaps, including financial expertise.

Strategic Planning

In October 2022, the College Board approved the Strategic Plan 2022-2027. Five high level strategic pillars have been agreed:

- Tertiary Education;
- Research Impact
- Engagement
- Enterprise; and
- Sustainability.

We understand that work is underway to develop measures of success to allow effective performance monitoring.

Enquiries of those charged with governance

In line with previous years, we formally wrote to the Chair of the Audit 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

Internal audit's annual opinion was based on its agreed audit plan for the year, as approved by the Audit Committee. For 2021/22, the internal auditor's opinion notes that, the College had 'effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work. In our opinion, the College has proper arrangements to promote and secure value for money. '

The internal auditors completed 5 reviews during 2021/22:

- Income collection and credit control;
- SITS System;
- Cyber Security / IT Systems;
- Marketing; and
- Estates Strategy

All of the reviews were assessed as "strong" and only 4 low grade recommendations were identified during the year.

Systems of internal control

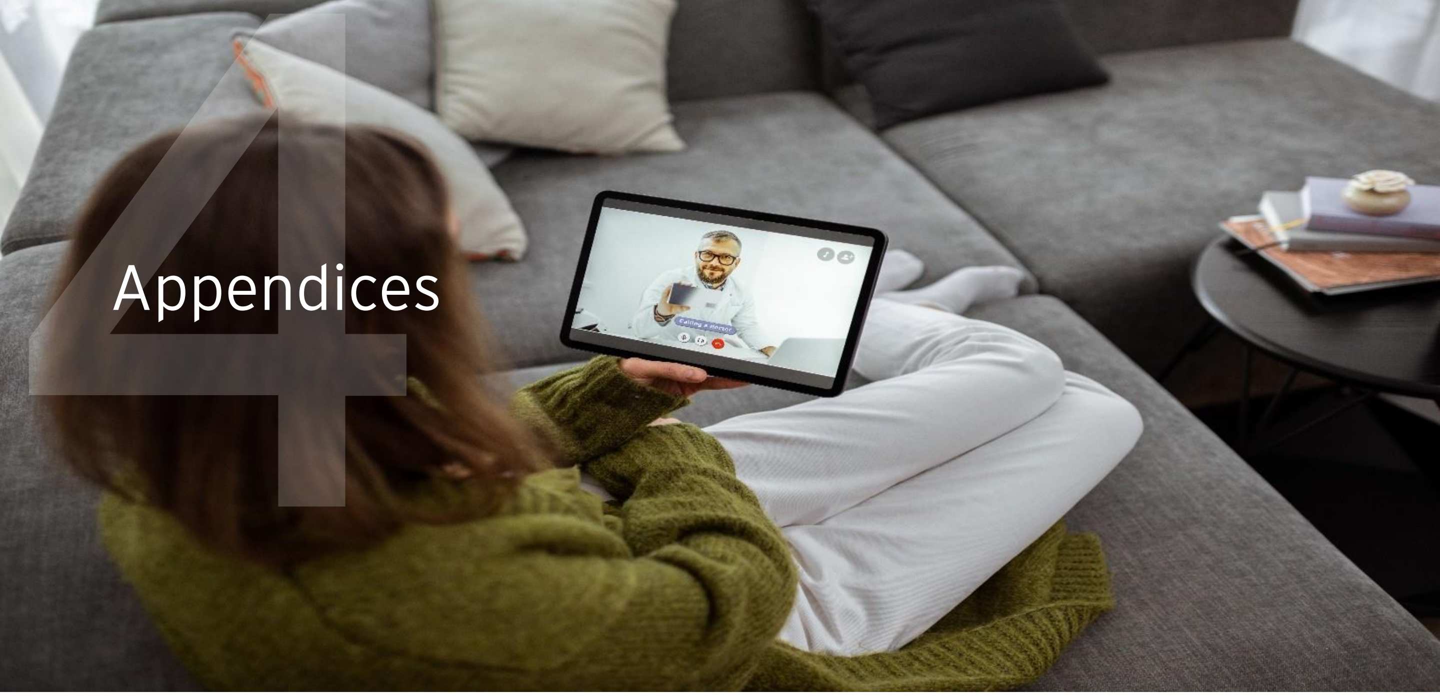
Within the Annual Governance Statement, the Board concluded that they have obtained assurance that the system of internal control was operating effectively during the year with no exceptions or significant issues identified.

Throughout our audit of the financial statements, we consider 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 implemented as designed. We undertook an initial assessment of the financial control environment as part of our planning work in March 2022, and updated our understanding as part of the yearend audit. Our work did not identify any significant weaknesses in the College's systems of internal control. We have not identified any significant changes to the design and implementation of controls as a result of the impact of hybrid working arrangements.

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.

The College received matches for investigation in January 2021 and results of the investigation were recorded on the NFI system. We noted progress continued to be made by the College and that we had no matters to report.



Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit Committee

D – Adjusted errors identified during the audit

E – Recommendations and action plan

F – 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, risk and governance 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 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.
Confirmations	We are not aware of any inconsistencies between the College's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy. We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard. We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

Audit Fees

	2021/22	2020/21
Component of fee:		
Auditor remuneration – expected fee	£16,960	£16,610
Additional audit procedures (see below)	£-	£2,000
Audit Scotland fixed charges:		
Pooled costs	£940	£1,070
Contribution to Audit Scotland costs	£850	£700
Total fee	£18,750	£20,380

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

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 2022 UK Transparency Report can be accessed on our website at EY UK 2022 Transparency Report | EY UK. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our Audit Quality Report. The disclosures are extensive. For example, they explain 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 at the College since appointment can be found at: Quality of public audit in Scotland annual report 2021/22 (audit-scotland.gov.uk)

Appendix C: Required communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the audit, risk and governance 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. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	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, risk and governance 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

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, risk and governance 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
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, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Annual Audit Report or as occurring if material.

Appendix D: Adjusted errors identified during the audit

This appendix sets out the adjustments identified that exceed our reporting threshold as part of finalisation of the financial statements. No audit differences were identified that were required to be adjusted.

Unadjusted differences				
No.	**Description**	**Income and Expenditure Impact / £000's**	**Other Comprehensive Income**	**Balance Sheet Impact / £000's**
1	Identification of unaccrued invoices	*Dr Expenses 23,328*		*Cr Accrued expenses 23,328*
2	Over-release of Deferred Capital Grant	*Dr Revenue 44,281*		*Cr Deferred Capital Grants 44,281*
3	IT equipment assigned to 2021/22 but relating to 2022/23.	*Cr Expenses 29,809*		*Dr Accruals 29.809*
4	Over-accrual for furniture depreciation	*Cr Expenses 23,463*		*Dr Fixed Assets 23,463*

Appendix E: Action Plan

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 recommendation**	**Recommendation**	**Management response / Implementation timeframe**
1	We have reported for a number of years that the College has been unable to set balanced budgets and that the College's medium term financial planning forecasts significant deficits. The financial environment has resulted in a further worsening of the College's financial position. *Grade 1*	The Board must continue to work with the UHI Regional Strategic Body to develop a sustainable financial plan for future years.	Response: Noted and agreed. We are continuing to work on short and long term solutions, with the RSB where appropriate, to ensure the long term financial stability of the College. Responsible officer: Director of Finance Implementation date: Ongoing

Appendix F: 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 2021/22 audit cycle.

MAR
APR
MAY
JUN
SEP
OCT
NOV
DEC

Audit Activity	Deliverable	Timing
Walkthrough Visit	Completion of internal documentation	April 2022
Audit planning and setting scope and strategy for the 2021/22 audit	Annual Audit Plan	April/May 2022
Year-end substantive audit fieldwork on unaudited financial statements	Audited Financial Statements	October – November 2022
Conclude on results of audit procedures	Issue Annual Audit Report	31 December 2022
Issue opinion on the College's financial statements	Submit Audit Scotland minimum dataset request	31 December 2022

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