HENDERSON LOGGIE
Chartered Accountants

Moray College UHI

Annual Audit Report for 2010/11 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2011/02

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Notice: About this report

This report has been prepared in accordance with our responsibilities under International Standards on Auditing (ISAs) and those set out within Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only Moray College UHI and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against Henderson Loggie CA (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy 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 Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Corporate Governance

- The College has shown a deficit for the year of £0.160 million (2009/10 – surplus £0.134 million), against a planned surplus of £0.023 million, and has a positive general reserve balance of £0.687 million at 31 July 2011 (31/07/10 - £0.491 million). The underlying operating deficit was £0.291 million (2009/10 – surplus £0.007 million) added to which there was a write-back of £0.131 million (2009/10 - £0.127 million) in the pension provision.

- The College's Corporate Governance Statement confirms that the College has been fully compliant with the principles of the 2010 UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2011.

- We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively.

- The College's internal auditors have concluded that 'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Moray College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work.'

- The College has an on-going process for identifying, evaluating and managing its significant risks.

Performance

- The College's Strategic and Operational Plans are updated periodically with input from Board members at annual planning seminars and workshops with officers, academic heads and other lay stakeholders. A draft of the latest Strategic Plan, covering the period 2011/12 to 2013/14, and incorporating the College Operational Plan for 2011/12, was approved by the Board of Management in October 2011.

- During the year Board members carried out a self-evaluation of performance.

- The College has a Risk Strategy and Risk Management Policy which are reviewed periodically. The Risk Register is updated on an on-going basis to account for changes in strategic and operational risks.

- Regular performance reports are submitted to the Board and Committees during the year. Performance Indicators are established and use of benchmarking focussed on quality improvement is made by the College.

- The College has a Value for Money (VFM) Strategy. The Audit Committee regularly considers a VFM matrix which summaries all internally generated VFM activity and resultant actions.

HENDERSON LOGGIE

Financial Statements

- On 13 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2011 and on the regularity of the financial transactions reflected in those financial statements.
- The annual financial statements of the College comply with the Accounts Direction issued by the Scottish Funding Council (SFC) and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.
- The College's Estate Development Strategy continues to progress. The Moray Life Sciences Centre is a key element of the College's Estates Strategy which was ratified by the full Board at its meeting on 5 October 2010. Construction of the Moray Life Sciences Centre is planned to begin in May 2012.
- The College embarked on a voluntary severance scheme during the year which, by 31 July 2011, had resulted in eight applications from members of staff at a cost of approximately £0.130 million.
- There were no audit adjustments made to the financial statements with only minor disclosure adjustments suggested. It was agreed not to amend the financial statements for two further adjustments - one on the grounds of its trivial nature and the other on the grounds of its subjective nature.
- In 2010/11, as in previous years, the College accounted for its participation in the Aberdeen City Council Pension Fund as if it were a defined contribution scheme. This is consistent with the accounting treatment adopted in previous years and current advice provided by the scheme actuaries.
- The College exceeded its FE WSUMs target for 2010/11 by 3,463 WSUMs (13.1%), (2009/10 – 835 WSUMs, 3.2%). The College failed to meet its target for HE FTEs by 46 FTEs (5.7%), (2009/10 – 8 FTEs shortfall, 0.9%) and a creditor of £0.190 million (2009/10 - £0.142 million) has been included in the financial statements in respect of the resulting clawback.

Outlook

- In March 2011 the SFC announced that, for further education activity, the College would face a reduction of 8.9%, in cash terms, for the 2011/12 Teaching Grant including a significant reduction in its school / college allocation. A further reduction has been indicated for 2012/13. In total, savings of around £2 million from 2010/11 levels are required and a number of actions have been taken, or have been identified, to facilitate these.
- The future for all colleges will include change driven by funding constraints and Scottish Government plans for rationalisation of education provision to over 16s. A number of reviews and consultations are currently underway to inform change.
- In February 2011 UHI, of which Moray College UHI is one of 13 Academic Partners, successfully achieved University Title. In relation to Shared Services, UHI Academic Partners are considering the potential for optimising efficiencies and achieving best practice across the Partnership. There is currently a move to develop shared Learning and Information Services (LIS).

Introduction

Background

1. 2010/11 was the fifth and final year of our five-year appointment as external auditors of Moray College UHI ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers the communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance.

2. The framework under which we operate under appointment by Audit Scotland is as outlined in our Strategic Planning Memorandum and 2010/11 Annual Audit Plan issued on 20 April 2011 and considered and approved by the Audit Committee at its meeting on 10 May 2011. The scope of the audit was to:

   - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;

   - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and

   - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

3. Our audit approach focused on the identification of the significant risk areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include;

   - compliance with legislation and financial regulations;

   - fixed assets transactions, including consideration of impairment; estate refurbishment and proper classification of expenditure; and compliance with relevant financial reporting standards;

   - recoverability of debtors;

   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;

   - compliance with Financial Reporting Standard (FRS) 17 Retirement Benefits and provision for pension liabilities for early retirals; and

   - compliance with the SORP on Accounting for Further and Higher Education.

Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

5. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.

6. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

Acknowledgement

7. Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.

Financial Position

8. SFC circular SFC/31/2009, issued on 16 October 2009, defines a sustainable college as one which 'continually develops the quality of its learning activities to meet the changing needs of its customers, society and the economy, controls its costs, and year on year secures sufficient income to resource its planned activities and enable a level of current and future investment necessary to maintain its assets.'

9. Table 1 provides a summary of the College's planned and actual financial results, based on the formal returns submitted by the College to the Funding Council.

Table 1: Comparison of planned and actual financial results

	2009/10 Actual £000	2010/11 Planned £000	2010/11 Actual £000	2011/12 Planned £000
Financial outturn Surplus/(deficit)	134	23	(160)	(170)
Income and expenditure reserves	491	864	687	931
Cash balances	3,549	3,400	3,930	3,000

Source: Audited accounts and Financial Forecast Return (FFR)

10. Overall, College income in 2010/11 has decreased by £0.512 million (4.2%) over 2009/10 to £11.679 million. There has been a decrease of £0.489 million (5.4%) in SFC grants, including a decrease of £0.283 million (3.6%) in recurrent grant; a decrease of £0.083 million (24.3%) in formula capital funding used to finance revenue expenditure; and a decrease of £0.157 million (31.4%) on 'other' SFC grants.

11. Although overall there has only been a small decrease of £0.027 million (1.2%) in tuition fees and education contract income over 2009/10 there are some significant variances in individual categories of income. The main movements are an increase of £0.126 million (14.9%) in FE fees – UK; and a decrease in education contracts income of £0.185 million (67.3%). This was mainly due to the end of New Deal for Disabled People sub-contract work in October 2010 as a result of cuts in Government funding.

12. Expenditure in 2010/11 has decreased by £0.218 million (1.8%) over 2009/10 to £11,839 million. This is primarily due to a decrease of £0.155 million (5.4%) in other operating expenses, of which £0.103 million relates to premises costs. The reduction in other operating expenses has resulted from a number of initiatives including improved controls, energy usage awareness measures and buying gains through APUC (Advanced Procurement for Universities and Colleges). Such cost saving measures continue to be monitored by the College and new initiatives identified and investigated.

13. Staff numbers (FTEs) have decreased by 18 from last year down to 244 and staff did not receive a pay rise during 2010/11 (2009/10 – 1.5% increase) although they did receive a one-off non-consolidated payment.

Financial Position (Cont'd)

14. The College's cash balance at 31 July 2011 was £3.930 million, an increase of £0.381 million (10.7%) on the previous year. For the past few years the cash funds have been built up following the reversal of the previous deficit position. In order to keep funds liquid for the College's future estate plans (including the Moray Life Sciences Centre) any excess funds are invested in UK High Street bank accounts.

15. As reported in previous years, there is no agreed contractual position between the College and Moray Council regarding the loan due by the College to the Council. This position is said to be due to a loss of the loan papers at the time of local government reorganisation in 1996. Attempts by the College to formalise the loan have continued but have yet to be successful. The loan outstanding at 31 July 2011 amounts to £0.751 million (31/07/10 - £0.799 million).

2010/11 FTEs/SUMs outturn

16. The College's outturn against its 2010/11 FTEs/WSUMs targets is shown in table 2.

Table 2: 2009/10 FTEs/SUMs outturn

	HE 2009/10	HE 2010/11	FE 2009/10	FE 2010/11
FTEs/WSUMs target	886	804	26,437	26,437
FTEs/WSUMs actual	878	758	27,272	29,900

Source: Audited SUMs returns.

17. The College's internal auditors carried out the audit of the SUMs return for 2010/11. They concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

FRS 17 Retirement Benefits

18. In 2009/10, as in previous years, the College accounted for its participation in the local government pension scheme as if it were a defined contribution scheme. This is consistent with the accounting treatment adopted in previous years.

19. As reported in previous years, in a letter to all College Principals, dated 13 November 2008, SFC strongly advised all colleges in the Strathclyde Pension Fund, as well as the Aberdeen and Tayside schemes, to consider accounting for the scheme as a defined benefit scheme. However, SFC acknowledged that there is scope within the FRS 17 standard, as currently worded, to account for the scheme as a defined contribution scheme and that it is ultimately for colleges and auditors to determine the accounting treatment. The College should review compliance with any future direction by SFC.

20. The Auditing Practices Board Practice Note 22 The Auditors' Consideration of FRS 17 'Retirement Benefits' – Defined Benefit Schemes requires auditors of entities accounting for multi-employer defined benefit schemes as if they were defined contribution to make enquiries of the directors regarding the basis for their conclusion that the entity's share of the scheme assets and liabilities cannot be identified. Auditors should also consider any relevant professional advice (for example actuarial or legal advice) that the directors may have obtained on this issue. Such enquiries were made via the Director of Finance and we also considered advice provided to the College by the Aberdeen City Council Pension Fund actuaries to support the current accounting treatment.

Financial Position (Cont'd)

Capital Income and Expenditure

21. The College purchased assets with a value of £0.036 million in the year (2009/10 - £0.268 million) relating to plant and equipment. These have been funded from SFC formula capital funding and UHI capital funding. Deferred capital grants have been correctly treated in line with relevant fixed assets.

22. Construction of the Moray Life Sciences Centre is planned to begin in May 2012 and total building costs are estimated at £6.0m. The project is due for completion by July 2013. In addition to the College contribution of approximately £1 million (plus land and equipment), funding has been secured from the European Regional Development Fund (ERDF), Highlands and Islands Enterprise (HIE) and NHS Grampian. The Life Sciences Centre is a key element of the College's Estates Strategy, which was ratified by the Board of Management at its meeting on 5 October 2010.

23. The College Board of Management has been fully involved in the capital investment appraisal process to date and the Building Committee holds the responsibilities relating to the control, progression and fulfilment of the Estates Development Strategy. The work of this Committee is reported to the full Board. A separate risk register is maintained for the Moray Life Sciences Centre project.

24. It is a key strategic objective of the College to provide sector-leading accommodation for the benefit of students and staff and the Board of Management will need to continue to oversee the development of the College's Estates Strategy. The College has an action on its Risk Register to re-open dialogue with the SFC re development / refurbishment of the main campus following completion of the Life Sciences Centre.

Provisions

25. The College has a provision in its balance sheet for £2,846 million (31/07/10 - £2.977 million) relating to pension costs from early retirements awarded to former employees. One of the College's pensioners died during the year which has contributed to a decrease in the provision of £0.131 million (credited to the Income and Expenditure Account). Expenditure of £0.160 million has been charged in the year against this provision. The College's approach to the valuation of the provision has in the past been to apply SFC actuarial tables on a consistent basis. The SFC issued guidance for the use of a net interest rate of 2.0% (2009/10 – 2.0%) however an interest rate of 2.3% has been used by the College for 2010/11. This does not give rise to a material difference in the provision.

26. The College also has a provision in its balance sheet of £0.027 million (31/07/10 - £0.040 million) for dilapidation costs in respect of properties leased by the College.

27. A provision of £0.030 million (31/07/10 - £0.040 million) exists in respect of a potential VAT liability in respect of business / non-business apportionment. This is subject to on-going discussion with HMRC and is valued with advice from the College's VAT adviser.

28. Provision has also been made at 31 July 2011 for the ongoing voluntary severance scheme totalling £0.130 million (31/07/10 - £nil).

Systems of Internal Control

Control environment

29. No material weaknesses in the accounting and internal control systems were identified during the 2010/11 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Systems of Internal Control (Cont'd)

Internal Audit

30. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Wylie & Bisset LLP provided internal audit services to the College in 2010/11. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate.

31. The College's internal auditors have concluded that 'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion Moray College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work.'

HMIE Review

32. We are also required by Audit Scotland's Code of Audit Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.

33. The College received a very positive report from HMIE following its annual engagement visit conducted in March 2011. Good progress had been made in implementing actions identified at the full HMIE review in October 2009.

Corporate Governance Arrangements

34. The College has continued to develop its corporate governance arrangements over 2010/11 including review of: the Standing Orders; Code of Conduct for Board members; Constitution & Proceedings; and Scheme of Delegation.

35. The arrangements were reviewed by the College's internal auditors during the year who confirmed that these were 'strong'. The internal auditors made one recommendation in their report in relation to the appointment, in August 2010, of the Assistant Principal to the role of Clerk to the Board. This was that the Board of Management keep this position under review and ensure that there is independence in the role of Clerk to the Board.

36. At the Board meeting in August 2011 the Chair reported that she and the Vice-Chair had reviewed the Principal against the Strategic Plan and the Assistant Principal / Clerk to the Board against her job description and there were no issues arising. It was noted that the Board was satisfied that the Assistant Principal / Clerk to the Board is able to separate both roles.

37. During the year the Board of Management completed a self-evaluation exercise and members were given the opportunity to have a personal dialogue with the Chair in relation to their own involvement with the Board. The Board also held an annual Roles & Responsibilities meeting, where it takes an in depth look at itself and how it performs. This included consideration of the results of the self-evaluation exercise.

38. On 30 September 2010 Audit Scotland published a report on The Role of Boards, which looks at the role boards play in overseeing the performance of different types of public bodies. At its meeting in September 2011 the Audit Committee undertook to review The Role of Boards report and The UK Corporate Governance Code (refer paragraph 43 below).

Corporate Governance Arrangements (Cont'd)

39. Other sector-wide developments include the working group convened by Scotland's Colleges, the SFC and the Chartered Institute of Public Finance and Accountancy to support the development of a bespoke framework of governance for the College sector. In May 2010 the working group produced a consultation draft of a document entitled 'Delivering Good Governance in Scotland's Colleges: A Framework'. The framework is based on 'The Good Governance Standard for Public Services' and incorporates the elements of the Financial Reporting Council (FRC) 'UK Corporate Governance Code' that are relevant to the sector. It was originally envisaged that the framework would replace the 'Guide for College Board Members' published by the Association of Scotland's Colleges in 2006 however a new Guide is currently being developed as part of a separate exercise. At the present time the framework document has not been finalised and no timescale has been set for this.

40. In addition, Scottish Ministers have commissioned an independent review of College Governance. The review is being chaired by Professor Russel Griggs, chair of Dumfries and Galloway College board. The review will develop recommendations which will help bring a new focus to further education governance while maintaining the important balance between accounting for public funds and preserving the benefits of an autonomous sector. The review is expected to conclude by the end of 2011.

Corporate Governance Statement

41. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

42. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal controls.

43. The College's corporate governance statement for 2010/11 states that the College complies with all the provisions of the June 2010 UK Corporate Governance Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2011. The 2010 version of the Code included a small number of changes relevant to the sector. These related to: new principles on the role of the Chair of the Board and non-executive Board members; new and amended principles on the composition of, and appointments to, the Board; a new principle on the time commitment expected of Board members; a new provision that the Chair should agree and regularly review the training and development needs of each Board member; and an amended principle on the Board's risk management responsibilities.

44. Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.

Fraud and irregularity, standards and conduct, and prevention and detection of corruption

45. During 2010/11 we had regard to Statement of Auditing Standards 110: Fraud and Error and ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

46. The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations and a Fraud Policy and Response Plan. These documents are reviewed and updated periodically.

Outlook

2011/12

47. In March 2011 the SFC announced that, for further education activity, the College would face a reduction of 8.9%, in cash terms, for the 2011/12 Teaching Grant including a significant reduction in its school / college allocation. A further reduction has been indicated for 2012/13. The College's WSUMs target has been reduced by 1,092 (4.1%) for 2011/12 to reflect the reduction in school / college activity and additional funding made available by the Scottish Government to fund additional places. In addition, the College was notified of a 38% reduction in its capital allocation.

48. The FFR prepared in June 2011 shows a budgeted 2011/12 deficit of £0.170 million (2010/11 £0.023 million surplus). This is based on total budgeted income of £10.875 million (2010/11 £12.346 million) and expenditure of £11.045 million (2010/11 £12.323 million).

49. In total, savings of around £2 million from 2010/11 levels are required and a number of actions have been taken, or have been identified, to facilitate these. This includes not replacing staff who have left; establishment of a voluntary severance scheme; stricter budgetary control; and enhanced collaborative purchasing arrangements facilitated by APUC.

Beyond 2011/12

50. The future for all colleges will include change driven by funding constraints and Scottish Government plans for rationalisation of education provision to over 16s. A number of reviews and consultations are currently underway to inform change.

51. Scottish Government proposals indicate that funding mechanisms will be simplified in future, possibly as early as 2012/13. Funding will follow regional need, based on demography and economy, rather than continue to follow previous patterns based on historic performance. Rationalisation of course provision and removal of duplication is expected to be achieved through closer working or mergers of institutions.

52. The College has taken several steps to prepare for the changes, involving Board members in the process. In addition to identifying savings to address immediate funding reductions financial planning has been undertaken for the three year period to 2013/14, with various scenarios considered.

Collaboration

53. In February 2011 UHI, of which Moray College UHI is one of 13 Academic Partners, successfully achieved University Title. A Post Title Working Group, Chaired by The Chair of the Board of Management of Moray College UHI, has been set up and is working to achieve a broad spectrum of opinions and ideas for a suitable governance model for the Partnership. The College's Risk Register identifies UHI Executive Office budget deficits as a high risk. An external consultant has been engaged to review the UHI business model.

54. UHI has drawn up a 'Curriculum for the 21st Century' framework and, in connection with this, work is ongoing to rationalise learning and teaching materials for common courses across the Partnership.

55. In relation to Shared Services, UHI Academic Partners are considering the potential for optimising efficiencies and achieving best practice across the Partnership. There is currently a move to develop shared LIS from which the biggest prize would be the capital cost saving on IT equipment. An "invest to save" proposal has been made to the SFC in this respect.

Introduction

56. The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

57. From 2010/11 Audit Scotland has introduced targeted follow-ups and, in February 2011, follow-up templates were issued in relation to improving public sector purchasing and the use of consultancy services. These were not mandatory for the further education sector however the 2010/11 planning guidance suggested that if one of the targeted follow-ups was considered of particular relevance to a college auditors may wish to consider adapting and completing the follow-up templates. Following discussion with the College it was agreed that we would not undertake this follow-up work.

Strategic and Operational Plans

58. The College's Strategic and Operational Plans are updated periodically with input from Board members at Principal's Planning Events and the Strategic Planning Event and workshops with officers, academic heads and other lay stakeholders. The Strategic Planning Event held in January 2011 included longer-term curriculum planning and considered how the curriculum would be aligned to support the long-term future needs of Moray.

59. A draft of the latest Strategic Plan, covering the period 2011/12 to 2013/14, and incorporating the College Operational Plan for 2011/12, was approved by the Board of Management in October 2011. At its meeting in August 2011 the Board had suggested that more emphasis be placed on the College's community impact activity and this was reflected in the final draft.

60. Detailed Operational Plans are also prepared by each College area. These set out aims / targets together with the responsible group or individual for each and completion dates. The Operational Plans are linked where applicable to the HMIE Confidence Statements, Support Area Self-Evaluation and the College Operational Plan.

Risk Management

61. The College has a Risk Management Strategy which provides a plan on the means of embedding effective risk management throughout the College. This was last reviewed by the College's Risk Management Group (RMG), which is composed of senior members of staff, in March 2009. A Risk Management Policy, which was also reviewed in March 2009, sets out the College's underlying approach to risk management and the roles and responsibilities of the Board of Management, College Principal, the Principal's Planning Group (PPG), the RMG and other key parties. The main reporting procedures are also identified.

62. The College's Risk Register, categorises risks and links the risks against the College's strategic objectives. The Risk Register is subject to review and update on a quarterly basis by the RMG with interim meetings if circumstances dictate. The Risk Register is reviewed at least annually by the PPG, Audit Committee and Board of Management.

63. Internal audit reviewed the College's risk management arrangements during the year and concluded that they were 'strong'. No recommendations were made in their report.

Performance management

64. The Board and its committees receive quarterly reports on the College's performance in implementing its Operational Plan. At its meeting in June 2011 the Board requested that senior management consider alternative ways of presenting the progress of the Operational Plan going forward.

65. The College's Sustainability Balanced Scorecard, which was discussed and approved by the Board of Management at its meeting in April 2010, is monitored by the PPG on a regular basis and by the Board annually. This includes a range of objectives and key performance indicators / measures covering finance, learner experience, staff, estates infrastructure and partnership working.

66. At an operational level 'Mystery Shopper' feedback is obtained to monitor performance and, where customer disappointment has been experienced, follow-ups are undertaken with relevant staff to ensure improvements are affected.

Financial management

67. The Senior Management Team is fully briefed on the position against budget. The format of the monthly management accounts includes a commentary on variances against budget for income and expenditure account, balance sheet and cash flow figures.

68. Whilst financial stability has been established in recent years there remains a need to develop additional income streams and identify future savings. Strategic financial reporting is made to the Board of Management where performance against SUMs and HE targets and progress on recruitment geared to achieve strategic activity levels is monitored. A Financial Strategy document setting out the strategic financial priorities and related performance indicators for Moray College UHI until 2013/14 was reviewed and updated in April 2011.

69. The Finance & General Purposes Committee, which meets six times per year, monitors performance against the College's approved annual revenue and capital budgets. The format of the monthly management accounts, which are sent electronically to all Board members, includes a commentary on variances against budget for the income and expenditure account, balance sheet and year end forecast.

Value for Money

70. The College has a VFM Strategy, which was reviewed in January 2010. A VFM matrix has been developed which summarises all internally generated VFM activity and resultant actions. This is reported to the Audit Committee on a regular basis.

Audit Opinion

71. On 13 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2011 and on the regularity of the financial transactions reflected in those financial statements.

Audit Completion

72. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 3 the three key elements of the audit process that we require the College to engage with.

Table 3: Key elements of the audit process

Completeness of draft financial statements A set of draft financial statements was received at the start of the final audit visit. These were of a high standard and required only minor presentational changes as part of the audit process. **Quality of supporting working papers** A full set of supporting working papers were provided from the outset of the audit and were of a suitably high standard. **Response to audit queries** We are pleased to note that all audit queries were dealt with in a timely manner.

Audit Adjustments and Confirmation

73. There were no audit and accounting adjustments made to the financial statements following the audit process.

74. A discussion on audit findings with the Director of Finance was held on 7 October 2011 at the conclusion of the audit fieldwork. It was agreed to leave the two unadjusted audit differences – one on the grounds of if its trivial nature and the other on the grounds of its subjective nature. The non-trivial adjustment relates to the unfunded early retirals pension provision. This was calculated using a 2.3% interest rate (as discussed in paragraph 25 above) however the provision in the financial statements was overstated by £0.012 million. The effect of this adjustment would be to decrease the provision at 31 July 2011 and the deficit for the year by £0.012 million.

75. In addition a small number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the accounts.

Confirmations and Representations

76. We confirm that as at 6 December 2011, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

77. In accordance with auditing standards, we obtained representations from the College on material issues.