



HENDERSON LOGGIE

Moray College

**Annual Audit report for 2006/07
to the Board of Management and
the Auditor General for Scotland**

External Audit Report No: 2007/03

Draft Issued: 13 November 2007

Final Issued: 16 November 2007

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3 Corporate Governance	5-8	This report is for the benefit of only Moray College 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.
4 Performance	9-10	Nothing in this report constitutes a valuation or legal advice.
5 Financial Statements	11	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.
Appendix I - Confirmation of Independence	12	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.



Executive Summary

1.1 Corporate Governance

- ❑ The College has shown a surplus for the year of £0.304 million and a deficit income and expenditure account balance of £0.786 million at 31 July 2007.
- ❑ 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.'*
- ❑ The College's Corporate Governance Statement confirms that the College has been fully compliant with the principles of the 2003 Combined Code on Corporate Governance during 2006/07 so far as it relates to further education colleges.
- ❑ 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 has an on-going process for identifying, evaluating and managing its significant risks.

1.2 Performance

- ❑ The College updated its Strategic and Operational Plans during the year with input from Board members, officers, academic heads and other stakeholders.
- ❑ The College's risk management policy was updated in 2006 with the risk register updated on an on-going basis to account for changes in strategic and operational risks. Risk management arrangements were assessed by the College's internal auditors as having made significant progress. The internal auditors recommended the College continue to develop and embed risk management throughout all levels of the College.
- ❑ Regular performance reports are submitted to the Board and Committees during the year. Areas for improvement in delivering the strategic objectives have been identified.
- ❑ The College Efficient Government Initiative submission identified potential savings of £0.135 million over three years to 2008.
- ❑ The College has a VFM Strategy and this was updated in January 2007. The Audit Committee regularly considers a VFM matrix which summaries all internally generated VFM activity and resultant actions. There was no internal audit VFM studies conducted during 2006/07, however a VFM project is planned for 2007/08.



Executive Summary

1.3 Financial Statements

- ❑ On 18 December 2007 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2007 and on the regularity of the financial transactions reflected in those financial statements.
- ❑ The financial statements of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice on Accounting for Further and Higher Education.
- ❑ There were no material or significant adjustments to the unaudited financial statements. It was agreed not to amend the financial statements for a number of trifling adjustments. A number of disclosure adjustments were agreed and applied to the financial statements.
- ❑ The College has commissioned an interim valuation of its property as at 31 July 2007. The valuation is due later in November 2007 although management do not propose to incorporate the revaluation in the accounts to 31 July 2007.
- ❑ Provisions for dilapidations of £23,000 and VAT liabilities of £72,700 have been made to the financial statements to 31 July 2007.
- ❑ The College failed to meet its FE WSUMS target for 2006/07 by 527 WSUMs (2.0%), (2005/06 – 201 WSUMs, 0.8%). The target for HE FTEs was exceeded by 12 FTEs (1.4%), (2005/06 – 13 FTEs, 1.6%).



Introduction

2.1 Background

2.1.1 2006/07 was the first year of our five year appointment as external auditors of Moray College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work.

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our Strategic Planning Memorandum and 2006/07 Audit Plan issued on 22 February 2007 and considered and approved by the Audit Committee on 29 May 2007. 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.

2.1.3 Our audit approach focused on the identification of the significant risks 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 interim revaluation and consideration of impairment and the potential impact on the financial statements. Estate refurbishment and proper classification of expenditure;
- recoverability of debtors;
- provision for pension liabilities for early retirees; and
- recognition of funding provided for specific purposes and the regularity of corresponding expenditure.

2.2 Basis of Information

2.2.1 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.



Introduction

2.2 Basis of Information (Cont'd)

2.2.2 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.

2.3 Acknowledgement

2.3.1 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.



Corporate Governance

3.1 Financial Position

3.1.1 Funding Council circular FE/54/02, issued on 20 December 2002 defines a college that is financially secure as one that *‘on a continuing basis, is able to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve. The college must also generate sufficient cash to finance its operations and meets its liabilities; regular operating surpluses would ensure this.’*

3.1.2 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

	2005/06 Actual £000	2006/07 Planned £000	2006/07 Actual £000	2007/08 Planned £000
Financial outturn Surplus	336	300	304	192
Income and expenditure reserves	(1,260)	(857)	(786)	(393)
Cash balances	1,849	1,852	2,456	2,142

Source: Audited accounts and FFR

3.1.3 Based on the results for the year to 31 July 2007 the College meets the requirements of the Funding Council to be classed as financially secure.

3.1.4 Overall, the College income in 2006/07 has increased by £0.908 million (8.4%) over 2005/06. The main reason is due to a significant increase of £0.818 million (10.5%) in SFC Grants, including an increased level of Financial Security Funding of £0.473 million, up £0.292 million (161.3%) on 2005/06.

3.1.5 Overall there was a decrease in tuition fees and educational contract income of £0.043 million (-2.3%). This is a net position with two contrasting factors. First there was a decrease £0.183 million (-48.0%) in Other Contracts. Jobcentre referrals to the Aberdeen Programme Centre under ‘baseline’ ceased at the end of April, with the loss of the contract. All referrals to the Elgin Programme Centre ceased at the end of June. Total referrals fell from 675 in 2005/06 to 264 in 2006/07. This was offset by a growth in tuition fees of £0.140 million (9.4%) from HE and FE students.

3.1.6 Expenditure in 2006/07 rose by £0.940 million (9.0%) over 2005/06 primarily due to staff costs increasing by £0.365 million (5.1%) and an increase in other operating costs of £0.554 million (20.3%). The major elements of the increase in other operating costs are a rise in expenditure on premises, administration and central services, agency staff costs, expenses in relation to income generating activities and an unfunded pension provision adjustment. These additional costs were offset by a reduction in teaching department costs.



Corporate Governance

3.1 Financial Position (Cont'd)

- 3.1.7 The College's cash balance at 31 July 2007 was £2.456 million, an increase of £0.607 million (32.8%) on the previous year. For the past few years the cash funds have been built up following the reversal of the previous deficit position. The funds are invested in high interest bank deposit accounts. It is expected that the outcome of the current Feasibility Study will identify the need for substantial cash injections to meet corporate objectives.
- 3.1.8 There appears to be 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. Recent attempts by the College to formalise the loan have yet to be successful. The loan outstanding at 31 July 2007 amounts to £0.956 million after repayment during the year of £0.047 million.

2006/07 FTEs/SUMS outturn

- 3.1.9 The College's outturn against its 2006/07 FTEs/WSUMS targets is shown in table 2.

Table 2: 2006/07 FTEs/SUMS outturn

	HE 2005/06	HE 2006/07	FE 2005/06	FE 2006/07
FTEs/WSUMs target	798	838	24,951	26,124
FTEs/WSUMs actual	811	850	24,750	25,597

Source: Audited SUMS returns.

- 3.1.10 The College's internal auditor carried out the audit of the SUMS return for 2006/07. 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

- 3.1.11 In 2006/07 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 2005/06.

Capital Income and Expenditure

- 3.1.12 The College purchased assets with a value of £0.268 million in the year mainly relating to land and buildings and plant and equipment assets. These have been principally funded from the SFC Financial Security Funding and UHIMI capital funding. Deferred capital grants have been correctly treated and in line with relevant fixed assets.
- 3.1.13 Land and buildings were last revalued in 2004 and were due to have an interim revaluation at 31 July 2007. A revaluation has been instructed but as yet details and the impact on the financial statements are unknown.

- 3.1.14 The College has commissioned a Feasibility Study to look at informing its Estate Strategy. The outcome of the study is awaited.

Debtors

- 3.1.15 Trade debtors are down on the previous year reflecting the lower level of activity at the Programme Centres. Accrued income is also down but this is largely due to improved processing efficiencies at the College.



Corporate Governance

3.1 Financial Position (Cont'd)

Provisions

- 3.1.16 The College has a provision in its balance sheet for £2.717 million relating to pension costs from early retirements awarded to former employees. Expenditure of £0.153 million has been charged in the year against this provision. The College's approach to the valuation of the provision has been to apply SFC actuarial tables on a consistent basis. The net interest applied was 2.0%.
- 3.1.17 College has made a provision of £23,000 for dilapidation costs in respect of properties leased by the College. A provision of £72,700 has been made in respect of a potential VAT liability in respect of business/non-business apportionment. This is subject to on-going discussion with HMRC.

3.2 Corporate Governance Arrangements

- 3.2.1 The College has developed improved corporate governance arrangements over recent years. The arrangements were reviewed by the College's internal auditors during the year who confirmed that the arrangements were strong. They reported:

- *"We are satisfied from our review that the College has approved Financial Regulations in place that are subject to regular review.*
- *Our review confirmed that the College has a clear protocol on the relationship between each of the committees and the governing body, including reporting mechanisms between them.*

- *While we are satisfied that there is a formal Code of Conduct in place, we highlight that it has not been updated for four years."*

3.3 Systems of Internal Control

Control environment

- 3.3.1 Our work undertaken in relation to the 2006/07 financial statements audit has not identified any control weaknesses in the operation of financial controls and procedures.

Internal Audit

- 3.3.2 Wylie & Bisset provided internal audit services to the College in 2006/07. 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.
- 3.3.3 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."*



Corporate Governance

3.4 Corporate Governance Statement

- 3.4.1 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.
- 3.4.2 The College delayed its adoption of the revised Combined Code on Corporate Governance issued in 2003 to await the outcome of a SFC review. The changes brought about by the 2003 Code were identified and reported to the College's Audit Committee in February 2007. In the main, steps have been taken by the College to comply with the 2003 Code.
- 3.4.3 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.
- 3.4.4 The College's corporate governance statement for 2006/07 states that the College complied throughout the year with all the provisions of the 2003 Combined Code, in so far as they relate to the further and higher education sector.
- 3.4.5 Our audit opinion on the statement is covered by our auditor's report and is unqualified in this respect.

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

- 3.5.1 During 2006/07 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements*.
- 3.5.2 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.
- 3.5.3 There are no outstanding recommendations from previous reports in relation to prevention and detection of fraud and irregularity, standards of conduct and prevention and detection of corruption.



Performance

Introduction

- 4.1.1 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.
- 4.1.2 No performance audit studies were identified by Audit Scotland for the College during 2006/07.

Strategic Plan

- 4.1.3 The College's Strategic and Operational Plans are updated each year with input from Board members at annual planning seminars and workshops with officers, academic heads and other lay stakeholders.

Risk Management

- 4.1.4 The College has a Risk Management Strategy which provides a plan on the means of embedding effective risk management throughout the College. A Risk Management policy, updated in February 2006, sets out the College's underlying approach to risk management and the roles and responsibilities of the Board of Management, College Principal, the College's Risk Management Group and other key parties. The main reporting procedures are also identified.
- 4.1.5 The College's risk register, updated in June 2007, categories risks and links the risks against the College's strategic objectives.
- 4.1.6 Internal audit reviewed the College's risk management arrangements and concluded "...the College has made significant progress..." "The College should continue to develop the area of Risk Management and ensure that it is embedded throughout all levels of the College."

Performance management

- 4.1.7 The Board and its committees receive regular reports on the College's performance in implementing its Operational Plan. The Board considered an update of the strategic aims and objectives and identified areas for improvement in delivering the Operational Plan.

Financial management

- 4.1.8 While financial stability has been established in recent years there remain uncertainties and a need to develop additional income streams. 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.

Efficient Government Initiative (EGI)

- 4.1.9 The College submitted its EGI information schedule to the SFC as required of them. Six main areas were identified providing the potential for savings of £0.135 million over three years to 2007/08. The largest area for savings (£0.067 million) comes from a move to the use of Purchasing Cards for selected budget holders with high volume, low value purchases.
- 4.1.10 Other areas of saving come from utilisation of electronic purchase requisition and goods received note, functionality, the use of an E-interface between SITS student registration system and the financial records and the upgrade and increased utilisation of capital asset & facility management software for tracking all assets and for improved project management of repairs and refurbishment of the College's estate.



Performance

Value for Money

- 4.1.11 The College has a Value for Money Strategy which was updated in January 2007. 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.
- 4.1.12 The planned input of internal audit on a VFM study during 2006/07 was cancelled at the request of College management. A VFM project has been identified in the internal audit plan for 2007/08.



Financial Statements

5.1 Audit Opinion

- 5.1.1 On 18 December 2007 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2007 and on the regularity of the financial transactions reflected in those financial statements.

5.2 Audit Completion

- 5.2.1 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 minimal 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.

5.3 Audit Adjustments and Confirmation

- 5.3.1 There were no potential adjustments identified during the audit. A discussion on audit findings with the Director of Finance and the College Secretary was held on 17 October 2007. It was agreed not to adjust the financial statements on the grounds of materiality.

- 5.3.2 A number of disclosure and clarification adjustments were made to the financial statements to ensure SORP compliance and improve the overall presentation of the accounts.

Confirmations and Representations

- 5.3.3 We confirm that as at 16 November 2007, 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. Appendix I provides a copy of the letter issued to the Audit Committee.
- 5.3.4 In accordance with auditing standards, we obtained representations from the College on material issues.



Appendix I - Confirmation of Independence

To: Moray College and the Auditor General for Scotland

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on Henderson Loggie's independence and the objectivity of the audit team. This statement is intended to comply with this obligation.

We have considered the fees paid to us by Audit Scotland and the College for professional services provided by us during the reporting period.

We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

Henderson Loggie is committed to being and being seen to be independent. As part of our ethics and independence policies, all Henderson Loggie staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings or interests. Our Ethics and independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;

risk management; and

independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the College / Audit Committee.

Confirmation of Audit Independence

We confirm that as at 16 November 2007, in our professional judgement, Henderson Loggie is independent within the meaning of regulatory and professional requirements and the objectivity of the audit director and audit staff is not impaired.

This report is intended solely for the information of the College and audit committee of Moray College and should not be used for any other purposes.

Yours faithfully

Henderson Loggie

