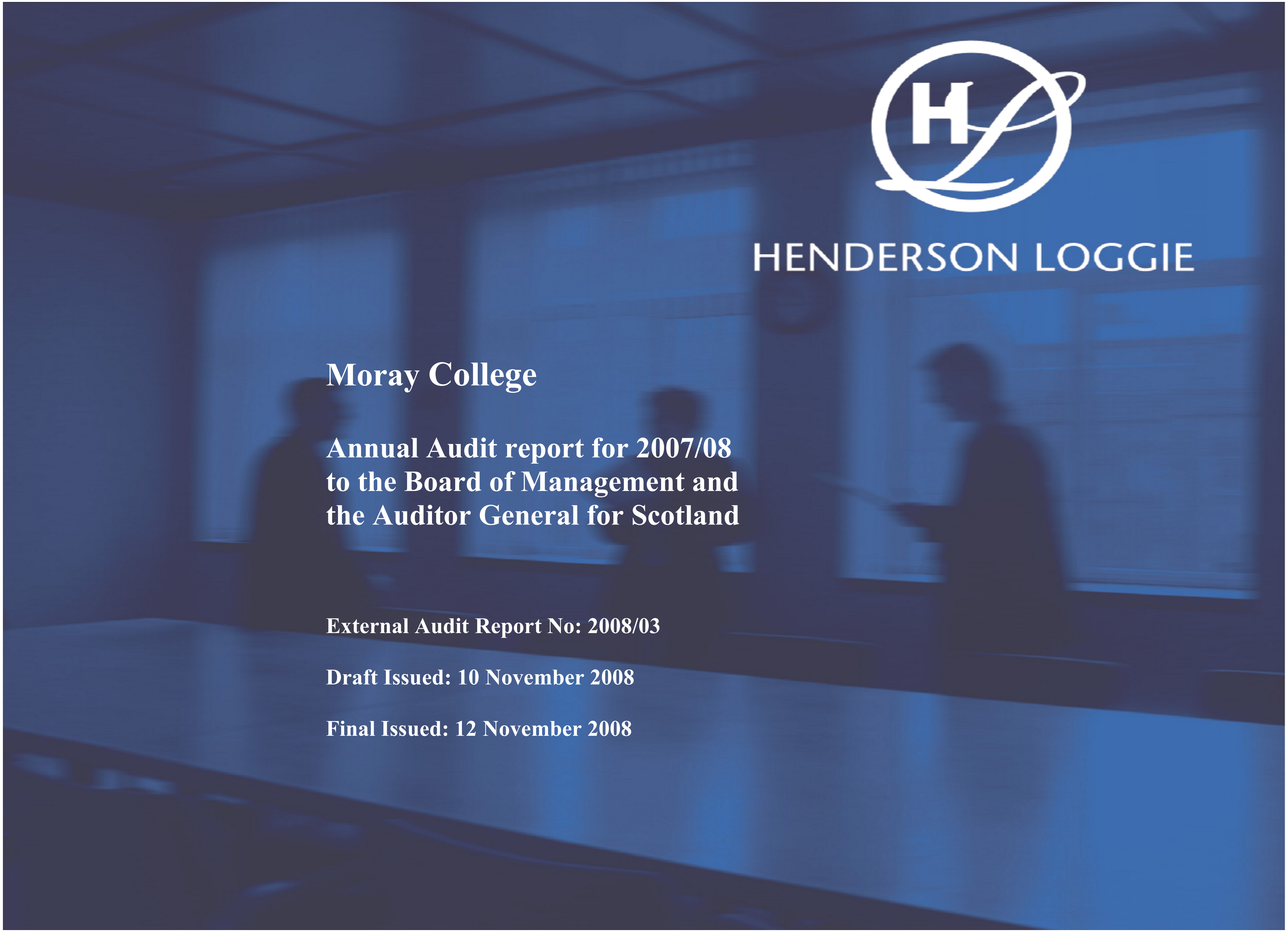

HENDERSON LOGGIE

Moray College

Annual Audit report for 2007/08 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2008/03

Draft Issued: 10 November 2008

Final Issued: 12 November 2008

Contents

Notice: About this report

This report has been prepared in accordance with the responsibilities set out within the 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 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.

Executive Summary

1.1 Corporate Governance

- The College has shown a surplus for the year of £0.211 million, against a planned surplus of £0.192 million, and a deficit income and expenditure account balance of £0.258 million at 31 July 2008.
- 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's Corporate Governance Statement confirms that the College has been fully compliant with the principles of the 2006 Combined Code on Corporate Governance during 2007/08 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. Regular performance reports are submitted to the Board and committees during the year.
- 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. A Risk Workshop was delivered to the Principal's Management Group (PMG) by the Director of Finance in March 2008 as the start of a cascading process down through the College structure.
- The College's latest Efficient Government Initiative submission in March 2008 identified potential savings of £0.190 million over the three years to 2007/08.
- The College has a Value for Money (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. Two VFM reviews were carried out by the College's internal auditors during the year in relation to central stores and the College learning centres.

1.3 Financial Statements

- On 9 December 2008 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008 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 new Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- There were no adjustments to the unaudited financial statements. It was agreed not to amend the financial statements for five trifling and one significant adjustment on the grounds of materiality. A number of disclosure adjustments were agreed and applied to the financial statements.

- In 2007/08, 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 in the SFC's Accounts Direction guidance notes and by the scheme actuaries.

- A 'desktop' valuation of the College's land and buildings was carried out by an independent firm of Chartered Surveyors in November 2007 and this was incorporated into the 2007/08 financial statements giving rise to a valuation gain of £2.220 million, which has been credited to the revaluation reserve.

- In February 2008 the College submitted an outline business case (OBC) to SFC for a proposed campus redevelopment project and this was considered by the Council's Capital Investment Committee at its meeting in April 2008. Although not approved to proceed at this time it remains a key strategic objective of the College to provide sector-leading accommodation for the benefit of students and staff.

- Provisions for dilapidations of £0.050 million and VAT liabilities of £0.070 million have been included in the financial statements to 31 July 2008.

- The College met its FE WSUMs target for 2007/08 by 732 WSUMs (2.8%), (2006/07 – 527 WSUMs shortfall, 2.0%). The College failed to meet its target for HE FTEs by 34 FTEs (3.8%), (2006/07 – 12 FTEs excess, 1.4%) and a creditor has been included in the financial statements in respect of the resulting clawback.

Introduction

2.1 Background

2.1.1 2007/08 was the second 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 2007/08 Annual Audit Plan* issued on 10 April 2008 and considered and approved by the Audit Committee on 6 May 2008. 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;
- interim revaluation of land and buildings and consideration of any impairment and the potential impact on the financial statements. Estate refurbishment and proper classification of expenditure;
- recoverability of debtors;
- compliance with Financial Reporting Standard (FRS) 17 *Retirement Benefits* and provision for pension liabilities for early retirals;
- recognition of funding provided for specific purposes and the regularity of corresponding expenditure; and
- compliance with the new SORP on Accounting for Further and Higher Education.

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.

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.

2.2.3 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.

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.

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

	2006/07 Actual £000	2007/08 Planned £000	2007/08 Actual £000	2008/09 Planned £000
Financial outturn Surplus	304	192	211	197
Income and expenditure reserves	(786)	(395)	(258)	159
Cash balances	2,456	3,000	3,233	3,100

Source: Audited accounts and FFR

3.1.3 Based on the results for the year to 31 July 2008 the College meets the requirements of the Funding Council to be classed as financially secure.

3.1.4 Overall, College income in 2007/08 has increased by £0.515 million (4.4%) over 2006/07. The main reason for this is a significant increase of £0.525 million (6.1%) in SFC grants, including an increase of £0.356 million (4.9%) in recurrent grant and an increased level of Financial Security Funding (including UHIMI capital funding) treated as revenue of £0.564 million, up £0.091 million (19.2%) on 2006/07. The Financial Security Funding has been matched with expenditure under a number of headings including building improvements and maintenance; plant and equipment; fixtures and fittings; and computer hardware and software, in line with the conditions of award. £0.100 million of this expenditure relates to the provision of the College's Fine Art programmes.

3.1.5 Overall there has been a small increase in tuition fees and education contract income of £0.016 million (0.9%). This is a net position with two contrasting factors. First there was a decrease £0.127 million (64.1%) in education contracts however this has been offset by a growth in tuition fees of £0.143 million (8.8%) from HE and FE students. We reported last year that Jobcentre referrals to the Aberdeen Programme Centre under 'baseline' ceased at the end of April 2007 with the loss of the contract and that all referrals to the Elgin Programme Centre ceased at the end of June 2007. The Elgin Centre has now closed and the staff redeployed in delivering internal employability training for students. Although recording a deficit of £0.067 million (excluding dilapidations provision) for 2007/08 the Aberdeen Centre has secured a sub-contract under the New Deal for Disabled People Initiative from June 2008, which management believes should more than fund its operations for two years or more.

3.1 Financial Position (Cont'd)

3.1.6 Other income has decreased by £0.067 million (6.3%) in comparison to 2006/07. The main element of this relates to a fall of £0.121 million (63.7%) in European grant income. Audit Scotland's *Financial overview of Scotland's colleges 2006/07*, published in April 2008, highlighted this as a sector wide issue with a forecast reduction of 50% over the period 2006/07 to 2009/10. The Board of Management should continue to monitor the College's plans to minimise the impact of this reduction on current activities.

3.1.7 Expenditure in 2007/08 rose by £0.608 million (5.4%) over 2006/07 primarily due to staff costs increasing by £0.509 million (6.8%). Staff numbers (FTEs) show only a small change to last year at 251 however it has been recognised by the College as a strategic objective to achieve staff salary levels at least in-line with median levels for the Scottish FE sector. A final one-off non-consolidated payroll bonus for 2007/08 has been offered by the Board of Management to all staff. The total cost of this has been estimated at £0.090 million, which has been accrued at the year-end.

3.1.8 Although, overall, other operating expenses show only a small increase on 2006/07 at £3.311 million, agency staff costs show a significant decrease of £0.171 million (33.3%). This relates to sub-contract costs for the e-Learning Transformation project, which was completed in December 2007.

3.1.9 The College's cash balance at 31 July 2008 was £3.233 million, an increase of £0.777 million (31.6%) 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 UK bank deposit accounts. Funding for the proposed campus redevelopment project includes a substantial cash contribution from the College's own funds. The Finance & General Purposes Committee is responsible for approving a Treasury Management Policy statement, which outlines the College's policies for cash management, long term investments and borrowings.

3.1.10 As reported last year, 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 2008 amounts to £0.893 million after repayment during the year of £0.063 million.

2007/08 FTEs/SUMs outturn

3.1.11 The College's outturn against its 2007/08 FTEs/WSUMs targets is shown in table 2.

Table 2: 2007/08 FTEs/SUMs outturn

	HE 2006/07	HE 2007/08	FE 2006/07	FE 2007/08
FTEs/WSUMs target	838	899	26,124	26,437
FTEs/WSUMs actual	850	865	25,597	27,169

Source: Audited SUMs returns.

3.1 Financial Position (Cont'd)

3.1.12 The College's internal auditors carried out the audit of the SUMs return for 2007/08. 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

3.1.13 In 2007/08, 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 and current advice provided in the SFC's Accounts Direction guidance notes.

3.1.14 Audit Scotland's sector overview report highlighted that the variation in accounting treatment adopted by colleges in relation to FRS 17 makes it difficult to perform a like-for-like comparison. Audit Scotland recommended that the SFC should consider whether to prescribe a specific approach in accounting treatment where UK accounting standards allow more than one approach to be taken. The SFC has not prescribed a specific approach in this area to date however the College should review compliance with any future direction by SFC.

3.1.15 The Auditing Practices Board Practice Note 22 *The Auditors' Consideration of FRS17 '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.

3.1.16 An amendment to FRS 17 was issued in December 2006 and was effective for the 2007/08 financial statements. The amendment replaces the existing disclosure requirements of FRS 17 with those of International Accounting Standard 19 *Employee Benefits*. For defined benefit schemes treated as defined contribution the disclosure now required includes:

i. the fact that the scheme is a defined benefit scheme;
ii. the reason why sufficient information is not available to enable the employer to account for the scheme as a defined benefit scheme;
iii. any available information about that surplus or deficit;
iv. the basis used to determine that surplus or deficit; and
v. the implications, if any, for the employer.

We were able to confirm compliance by the College with the FRS 17 amendment.

3.1 Financial Position (Cont'd)

Capital Income and Expenditure

3.1.17 The College purchased assets with a value of £0.212 million in the year mainly relating to plant and equipment. These have been funded from the SFC Financial Security Funding and UHIMI capital funding. Deferred capital grants have been correctly treated in line with relevant fixed assets.

3.1.18 We reported last year that land and buildings were due to have an interim valuation at 31 July 2007 although this was not available for incorporation into the 2006/07 financial statements. A 'desktop' valuation was carried out by an independent firm of Chartered Surveyors in November 2007 and this was incorporated into the 2007/08 financial statements giving rise to a valuation gain of £2.220 million, which has been credited to the revaluation reserve.

3.1.19 In February 2008 the College submitted an OBC to SFC for a proposed campus redevelopment project. The preferred option was a combination of new build and redevelopment on the existing site at a total cost of £56.7m and the funding package consisted of a mix of SFC, HIE and ERDF grants, proceeds from the sale of existing property and the College's own funds. At its meeting on 4 April 2008 the Council's Capital Investment Committee considered the College's proposal and agreed to advise the College:

- *'that it should not progress to full business case because it has not demonstrated a critical estate need to warrant major capital investment. Instead, the College should use its capital formula allocation to address the remedial work identified in the condition survey;*
- *that the College's operational plans and estate strategy should be consistent with UHIMI's Strategic Brief for the College and with UHIMI's wider estates framework and supported by UHIMI;*
- *that our capital funding is fully committed for the current Spending Review period but that in preparation for the next Spending Review, we intend to commission an update of the Atkins 2000 condition survey to inform the Council's views on future college funding priorities and that there would be a separate exercise to consider functionality;*
- *the College should be asked to revisit its options appraisal to consider a solution which is affordable from enhanced formula capital (including a share of UHIMI's formula capital) and which could be considered for future spending review submissions;*
- *the College should be asked to demonstrate robust utilisation and activity data (specifically, space utilisation, growth and commercial activity); and*
- *the College should be asked to work with the Council's executive and the Property Support Service to produce a revised OBC to be presented to a future meeting of CIC in 12 to 18 months.'*

3.1 Financial Position (Cont'd)

Capital Income and Expenditure (Cont'd)

3.1.20 It was noted as good practice that the College Board of Management has been fully involved in the capital investment appraisal process to date through Special meetings of the Board. It remains a key strategic objective of the College to provide sector-leading accommodation for the benefit of students and staff and the Board will need to continue to oversee the development of the College's estates strategy and OBC in response to the Capital Investment Committee's decision.

Provisions

3.1.21 The College has a provision in its balance sheet for £2.849 million relating to pension costs from early retirements awarded to former employees. 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 been to apply SFC actuarial tables on a consistent basis. The net interest applied was 2.0% in line with SFC guidance.

3.1.22 The College has made a provision of £0.050 million for dilapidation costs in respect of properties leased by the College, representing an increase of £0.027 million on the provision at 31 July 2007. A provision of £0.070 million has also 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.'*

3.2.2 Arising from a recommendation made in a previous internal audit report the *Code of Conduct for the Members of the Board of Management of Moray College* was reviewed and updated in July 2008. One outstanding recommendation relates to the appointment of a Board member from a financial background to the Audit Committee. The College has undertaken to make this a priority when a vacancy arises.

3.2.3 During the year the Board of Management and each of its committees reviewed and updated the findings of previous self-evaluation exercises. This included a review of planned actions to address any weaknesses highlighted. The Board also held an annual Roles & Responsibilities meeting, where it takes an in depth look at itself and how it performs.

3.2.4 Board training provided during the year included an in-house course on the workings of the Finance & General Purposes Committee in May 2008.

3.2 Corporate Governance Arrangements (Cont'd)

3.2.5 The academic affairs of the College are overseen by the Academic Council on which two Board members now sit. Although not a formally constituted committee of the Board, the minutes of Council are presented for the consideration of the Board. The Academic Council has two sub-committees, the Quality Committee and the Equality & Diversity Committee. The Association of Scotland's Colleges *Guide for College Board Members* suggests that a Learning and Teaching Committee should be in place although, commonly, the role of this committee is performed by the Finance & General Purposes Committee. Moray College does not follow this model.

3.2.6 In November 2007 the Audit Committee was invited to consider whether the current arrangements are sufficient to enable the Board to discharge its responsibility in relation to learning and teaching and the Committee agreed that the present structure is sufficient.

3.3 Systems of Internal Control

Control environment

3.3.1 Our work undertaken in relation to the 2007/08 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 2007/08. 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 work.*'

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. The College applied the revised Combined Code on Corporate Governance issued in June 2006 for the 2007/08 financial statements.

3.4.2 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.

3.4.3 The College's corporate governance statement for 2007/08 states that the College complied throughout the year with all the provisions of the 2006 Combined Code, in so far as they relate to the further and higher education sector.

3.4 Corporate Governance Statement (Cont'd)

3.4.4 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 2007/08 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 2007/08.

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 (RMG) and other key parties. The main reporting procedures are also identified.

4.1.5 The College's Risk Register, updated in July 2008, categories 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 (composed of senior members of staff) with interim meetings if circumstances dictate. The Risk Register is reviewed at least annually by the PMG, Audit Committee and Board of Management.

4.1.6 Internal audit reviewed the College's risk management arrangements during the year and concluded that they were 'strong'. They reported:

- *'We recognise that the College has made significant progress in the area of risk management;*
- *The College should continue to develop the area of risk management and ensure that it is embedded throughout all levels of the College.'*

4.1.7 A Risk Workshop was delivered to the PMG by the Director of Finance in March 2008 as the start of a cascading process down through the College structure. A session on risk management was also included as part of the Staff Development Day in August 2008.

Performance management

4.1.8 The Board and its committees receive regular reports on the College's performance in implementing its Operational Plan.

Performance management (Cont'd)

4.1.9 At its meeting in November 2007 the Audit Committee received a paper from the Director of Finance assessing 'Best Value' at Moray College against the nine characteristics of Best Value defined by the Scottish Government: commitment and leadership; sound governance at a strategic and operational level; accountability; sound management of resources; responsiveness and consultation; use of review and options appraisal; contribution to sustainable development; equal opportunities; and joint working. The assessment showed that much progress has been made by the College in these areas. It was noted that this version of the paper was only a starting point and it will be expanded upon in the future and it is considered to be an example of particularly good practice that the College has benchmarked itself against this framework.

Financial management

4.1.10 While financial stability has been established in recent years there remains 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. A Financial Strategy document setting out the strategic financial priorities and related performance indicators for Moray College until 2009/10 was finalised in March 2008.

4.1.11 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 includes a commentary on variances against budget for the income and expenditure account, balance sheet and year end forecast.

Efficient Government Initiative (EGI)

4.1.12 The College submitted an updated EGI information schedule to the SFC in March 2008. Nine areas were identified providing the potential for savings of £0.190 million over three years to 2007/08. The largest area for savings (£0.105 million) comes from a move to the use of Purchasing Cards for selected budget holders with high volume, low value purchases.

4.1.13 Additions to the previous EGI submission in January 2007 related to a review of student / staff refectory menus, opening hours and staffing etc.; work load analysis re teaching staff; and development of the College intranet.

Value for Money

4.1.14 The College has a VFM 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.

4.1.15 Two VFM reviews were carried out by the College's internal auditors during the year:

VFM – Central Stores

- The internal auditors concluded that the College has 'substantial' systems and procedures appropriate to this area although highlighted a number of weaknesses or areas for potential improvement. A number of medium and low priority recommendations were made which are being actioned by management.

VFM – Learning Centres

- The internal auditors concluded that the College has 'substantial' systems and procedures appropriate to this area although again highlighted a number of weaknesses or areas for potential improvement. Most significantly it was reported that there is a lack of clarity as to who has overall responsibility for the learning centres; there is a lack of market research and advertising; and there is a lack of regular reporting on performance. A number of medium and low priority recommendations were made which are being actioned by management.

Financial Statements

5.1 Audit Opinion

5.1.1 On 9 December 2008 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2008 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 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.

5.3 Audit Adjustments and Confirmation

5.3.1 There were no adjustments to the unaudited financial statements. A discussion on audit findings with the Assistant Accountant and the College Secretary was held on 14 October 2008 at the conclusion of the audit fieldwork and these were subsequently discussed with the Director of Finance. It was agreed not to amend the financial statements for five trifling and one non-trifling adjustment on the grounds of materiality.

5.3.2 A 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

5.3.3 We confirm that as at 12 November 2008, 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 12 November 2008, in our professional judgement, Henderson Loggie is independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner 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