



**HENDERSON LOGGIE**  
Chartered Accountants

## **Moray College**

### **Annual Audit report for 2008/09 to the Board of Management and the Auditor General for Scotland**

**External Audit Report No: 2009/03**

**Draft Issued: 4 November 2009**

**Final Issued: 11 November 2009**



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<b>1 Executive Summary</b>	<b>1-2</b>	This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's <i>Code of Audit Practice</i> ('the Code') and <i>Statement of Responsibilities of Auditors and Audited Bodies</i> .
<b>2 Introduction</b>	<b>3-4</b>	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.
<b>3 Corporate Governance</b>	<b>5-10</b>	Nothing in this report constitutes a valuation or legal advice.
<b>4 Performance</b>	<b>11-12</b>	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.
<b>5 Financial Statements</b>	<b>13-14</b>	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.
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## Executive Summary

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### 1.1 Corporate Governance

- ❑ The College has shown a surplus for the year of £0.025 million, against a planned surplus of £0.197 million, and a positive income and expenditure account balance of £0.01 million at 31 July 2009. The main reason for the significant variance in the actual financial outturn against budget was a non-controllable increase in the unfunded enhanced early retirement provision.
- ❑ The College's Corporate Governance Statement confirms that the College has been fully compliant with the principles of the 2008 Combined Code on Corporate Governance during 2008/09 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'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.

### 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 reviewed in March 2009, together with the Risk Strategy. The Risk Register is updated on an on-going basis to account for changes in strategic and operational risks.
- ❑ 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. Three VFM reviews were carried out by the College's internal auditors during the year in relation to: the College transport arrangements; commercial activities / business development and project management; and catering operations.



## Executive Summary

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### 1.3 Financial Statements

- ❑ On 8 December 2009 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2009 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 SFC and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.
- ❑ Based on the results for the year to 31 July 2009 the College meets the requirements of the Funding Council to be classed as financially secure.
- ❑ Four audit adjustments, together with a number of disclosure adjustments, were made to the financial statements. A separate report to those charged with governance has been issued which explains the nature of the adjusted misstatements. It was agreed not to amend the financial statements for four further trivial adjustments on the grounds of materiality.
- ❑ In 2008/09, 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.
- ❑ A valuation of the College's land and buildings was carried out by an independent firm of Chartered Surveyors at 31 July 2009 and this was incorporated into the 2008/09 financial statements giving rise to a valuation gain of £4.445 million, which has been credited to the revaluation reserve.
- ❑ A revised outline business case (OBC) for the redevelopment of the main campus was presented to the SFC's Capital Investment Committee in August 2009 however approval was not given to move to the full business case stage. The College is currently revisiting priorities and costings with regard to Phase 1 of the redevelopment, which is a stand-alone project with no SFC funding, involving construction of a Life Sciences Centre, in collaboration with NHS Grampian, and also including new build relating to the 'street' and entrance area. 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 £0.048 million and VAT liabilities of £0.060 million have been included in the financial statements to 31 July 2009.
- ❑ The College failed to meet its FE WSUMs target for 2008/09 by 36 WSUMs (0.1%), (2007/08 – 732 WSUMs excess, 2.8%). The shortfall for 2008/09 is however within the 2% leeway for under-provision against target allowed by SFC. The College failed to meet its target for HE FTEs by 16 FTEs (1.8%), (2007/08 – 34 FTEs shortfall, 3.8%) and a creditor of £0.111 million has been included in the financial statements in respect of the resulting clawback.



## Introduction

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### 2.1 Background

2.1.1 2008/09 was the third 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 2008/09 Annual Audit Plan* issued on 22 April 2009 and considered and approved by the Audit Committee on 5 May 2009. 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 transactions, including consideration of impairment, revaluation of land and buildings and the potential impact on the financial statements; 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 retirees; and
- compliance with the SORP on Accounting for Further and Higher Education.



## Introduction

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### *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.



## 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**

	2007/08 Actual £000	2008/09 Planned £000	2008/09 Actual £000	2009/10 Planned £000
Financial outturn Surplus	211	197	25	178
Income and expenditure reserves	(258)	159	1	600
Cash balances	3,233	3,100	2,849	3,500

Source: Audited accounts and FFR

- 3.1.3 Based on the results for the year to 31 July 2009 the College meets the requirements of the Funding Council to be classed as financially secure. The main reason for the significant variance in the actual financial outturn against budget was a non-controllable increase in the unfunded enhanced early retirement provision (refer paragraph 3.1.21 below).
- 3.1.4 Overall, College income in 2008/09 has increased by £0.468 million (3.8%) over 2007/08 to £12.642 million. There has been an increase of £0.137 million (1.5%) in SFC grants, including an increase of £0.367 million (4.8%) in recurrent grant offset by a decreased level of other SFC funding, down £0.189 million (27.3%) on 2007/08. The main reason for this is that no e-Learning Transformation income was received during 2008/09 (2007/08 - £0.173 million) as the project came to an end in December 2007.
- 3.1.5 Overall there has been a significant increase in tuition fees and education contract income of £0.306 million (16.6%). This is due to two factors. First there was an increase of £0.201 million (283.1%) in education contracts as a result of the sub-contract secured from the Shaw Trust in June 2008 under the New Deal for Disabled People Initiative and there has been a continued growth in tuition fees of £0.105 million (5.9%) from HE and FE students.



## Corporate Governance

### 3.1 Financial Position (Cont'd)

- 3.1.6 Expenditure in 2008/09 rose by £0.654 million (5.5%) over 2007/08 to £12.617 million primarily due to staff costs, excluding the pension provision, increasing by £0.484 million (6.1%). Staff numbers (FTEs) have increased to 261 from 251 last year and staff received an average pay rise of 3% during 2008/09.
- 3.1.7 Overall, other operating expenses show only a small increase on 2007/08 of £0.063 million. Within this, the main movements relate to academic / teaching departments and services costs, which show an increase of £0.102 million (14.6%) on 2007/08 and agency staff costs, which show a decrease of £0.109 million (31.9%).
- 3.1.8 The College's cash balance at 31 July 2009 was £2.849 million, a decrease of £0.384 million (11.9%) on the previous year. For the past few years the cash funds have been built up following the reversal of the previous deficit position. Excess funds are invested in a fixed term high interest UK bank deposit account, which has minimised the effect of the fall in bank interest rates during 2008/09 on the College's investment income for the year.
- 3.1.9 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 2009 amounts to £0.846 million after repayment during the year of £0.047 million.

#### 2008/09 FTEs/SUMs outturn

- 3.1.10 The College's outturn against its 2008/09 FTEs/WSUMs targets is shown in table 2.

Table 2: 2008/09 FTEs/SUMs outturn

	HE 2007/08	HE 2008/09	FE 2007/08	FE 2008/09
FTEs/WSUMs target	899	888	26,437	26,437
FTEs/WSUMs actual	865	872	27,169	26,401

Source: Audited SUMs returns.

- 3.1.11 The College's internal auditors carried out the audit of the SUMs return for 2008/09. 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
- 3.1.12 In 2008/09, 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.





## Corporate Governance

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### 3.1 Financial Position (Cont'd)

- 3.1.13 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.
- 3.1.14 In a letter to all College Principals, dated 13 November 2008, SFC concluded that: *'Given the direction of travel, SFC strongly advises all colleges in the Strathclyde Pension Fund, as well as the Aberdeen and Tayside schemes which have similar characteristics, to consider accounting for the scheme as a defined benefit scheme. However, we fully acknowledge that there is scope within the FRS 17 standard, as currently worded, to account for the scheme as a defined contribution scheme and it is ultimately for colleges and auditors to determine the accounting treatment.'* 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.

### Capital Income and Expenditure

- 3.1.16 The College purchased assets with a value of £0.141 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.
- 3.1.17 A valuation was carried out by an independent firm of Chartered Surveyors at 31 July 2009 and this was incorporated into the 2008/09 financial statements giving rise to a valuation gain of £4.445 million, which has been credited to the revaluation reserve.
- 3.1.18 A revised OBC for the redevelopment of the main campus was approved by the College's Board of Management at a Special meeting on 16 June 2009 and presented to the SFC's Capital Investment Committee (CIC) on 6 August 2009. The preferred option was primarily two projects split into three phases. Phase 1 was a stand-alone project with no SFC funding, involving construction of a Life Sciences Centre, in collaboration with NHS Grampian, and also including new build relating to the 'street' (enclosed multi-use space) and entrance area. Phases 2 and 3 involved a major redevelopment of the existing College campus. While CIC members noted that *'the project was commendable and worthwhile, the Committee regretfully agreed that the project should not progress to full business case because:*
- the College had not demonstrated a critical estate need;*
  - there were higher priorities for college capital funding; and*
  - SFC college capital funding was fully committed for the foreseeable future.'*



## Corporate Governance

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### 3.1 Financial Position (Cont'd)

3.1.19 Following approval by the Board of Management at a Special meeting on 2 June 2009 the business case for the Life Sciences Centre was submitted to NHS Grampian and HIE Moray with a view to securing their funding. Funding has already been secured from the European Regional Development Fund (ERDF) although final commitments will be required by the end of December 2009 otherwise this allocation could be lost. The original estimated cost for Phase 1 works was £9.8 million and funding is also to be provided by the Robertson Trust and the College. At its meeting on 25 August 2009 the Board's Building Sub-Committee agreed to have the existing Design Team revisit the College's priorities and costings with regard to Phase 1 in light of the SFC's decision. Although discussions are continuing it has been agreed that the 'street' element of Phase 1 will not now progress.

3.1.20 It remains 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.

#### *Provisions*

3.1.21 The College has a provision in its balance sheet for £3.103 million relating to pension costs from early retirements awarded to former employees. Expenditure of £0.169 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. During the year the tables were reviewed by the Government Actuary and revised tables were issued in August 2009 together with guidance to use a net interest rate of 2.5% (2007/08 – 2.0%). Life expectancy increased for all unfunded pensioners by an average of three years. The resulting revaluation adjustment to the provision was £0.254 million in

comparison with an adjustment of £0.132 million last year and a budget for 2008/09 of £0.100 million.

3.1.22 The College has a provision in its balance sheet of £0.048 million for dilapidation costs in respect of properties leased by the College, representing a decrease of £0.002 million on the provision at 31 July 2008. A provision of £0.060 million also exists 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 Systems of Internal Control

#### *Control environment*

3.2.1 Our work undertaken in relation to the 2008/09 financial statements audit has not identified any control weaknesses in the operation of financial controls and procedures.

#### *Internal Audit*

3.2.2 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 2008/09. 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.

3.2.3 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.*'



## Corporate Governance

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### 3.3 Corporate Governance Arrangements

3.3.1 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.'*

3.3.2 Arising from a recommendation in a previous internal audit report that a Board member from a financial background should be appointed to the Audit Committee a retired Chartered Accountant was co-opted to serve on the Committee from March 2009 (initially for a pilot of two meetings).

3.3.3 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.

3.3.4 Board training provided during the year included attendance at courses run by the Scottish Further Education Unit (SFEU) on Board governance and a presentation by HM Inspectorate of Education (HMIE) on the new HMIE Quality Arrangements in November 2008.

3.3.5 The Assistant Principal / Clerk to the Board retired from his post on 31 August 2009. The College has taken the opportunity to split these Board and management responsibilities by appointing a part-time Clerk to the Board following a recruitment process involving advertising in the local press.

3.3.6 Other corporate governance developments during 2008/09 include revision of the Board of Management: Standing Orders; Scheme of Delegation; and Constitution and Proceedings. The terms of reference for Board committees were also reviewed during the year.

### 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 2008 for the 2008/09 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.



## Corporate Governance

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### *3.4 Corporate Governance Statement (Cont'd)*

- 3.4.3 The College's corporate governance statement for 2008/09 states that the College complies with all the provisions of the 2008 Combined Code on Corporate Governance in so far as they apply to the further and higher education sector, and it complied throughout the year ended 31 July 2009.
- 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 2008/09 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 (October 2008), Financial Regulations (July 2006) and a Fraud Policy and Response Plan (February 2009). These documents are reviewed and updated periodically.



## Performance

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### *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 2008/09.

### *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. This was reviewed by the College's Risk Management Group (RMG) 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 Management Group (PMG), the RMG and other key parties. The main reporting procedures are also identified.

4.1.5 The College's Risk Register, updated in April 2009, 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:

- ❑ *'Our review confirmed that the levels of responsibility are clearly defined and there are clear levels of accountability for risk management throughout the College;*
- ❑ *We are satisfied that the College is adhering to the agreed risk management process, including the review and update of the College's register for significant risks, and regular reporting of this to the relevant management and committee bodies; and*
- ❑ *We note that our testing highlights that the risk management process appears to have been embedded with College staff in line with expectations of best practice and the agreed risk management process.'*

### *Performance management*

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



## Performance

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### *Financial management*

4.1.8 Whilst 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 2010/11 was issued in March 2008 and reviewed and updated in March 2009.

4.1.9 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.

### *Efficient Government Initiative (EGI)*

4.1.10 The College submitted updated EGI information schedules to the SFC in November 2008. This included a forecast for the period 2008/09 to 2010/11 showing total projected savings of £0.870 million, the main element being use of purchase cards, work load analysis for teaching staff, increased utilisation of the Aberdeen Programme Centre and improved timetabling and room utilisation on the main campus by means of specialist software. At the date of this report the quantification of actual savings for 2008/09 was not available. This information will be included on a return to SFC, due to be submitted in January 2010.

### *Value for Money*

4.1.11 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.

4.1.12 Three VFM reviews were carried out by the College's internal auditors during the year:

#### *VFM – College transport arrangements*

❑ The internal auditors concluded that the College has 'substantial' systems and procedures appropriate to its operations in 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 – Commercial activities / business development and project management*

❑ The internal auditors concluded that the systems used by the College are 'substantial' in this area although again 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 – Catering Operations*

❑ The internal auditors concluded that the College has 'strong' systems and procedures appropriate to its operations in this area and no recommendations were made as a result of the review.

4.1.13 The College is in the process of implementing e-Procurement Scotland PECOS software to facilitate the full procurement benefits of APUC (Advanced Procurement for Universities and Colleges).



## Financial Statements

### 5.1 Audit Opinion

5.1.1 On 8 December 2009 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2009 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**

<p><b>Completeness of draft financial statements</b> 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.</p> <p><b>Quality of supporting working papers</b> A full set of supporting working papers were provided from the outset of the audit and were of a suitably high standard.</p> <p><b>Response to audit queries</b> We are pleased to note that all audit queries were dealt with in a timely manner.</p>
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### 5.3 Audit Adjustments and Confirmation

5.3.1 In table 4 we draw attention to the agreed audit and accounting adjustments to the financial statements made by management following the audit process.

**Table 4: Audit adjustments**

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
General reserve			118	
Revaluation reserve				118
Accruals			13	
VAT				13
Internal audit fees	2			
Accruals				2
Dilapidations provision			7	
Expenses		7		
	2	7	138	133
	=====	=====	=====	=====

5.3.2 A discussion on audit findings with the Director of Finance was held on 14 October 2009 at the conclusion of the audit fieldwork. It was agreed to amend the financial statements for the four adjustments but to leave four unadjusted on the grounds of them being of a trivial nature.

5.3.3 In addition 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.



## Financial Statements

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### 5.3 *Audit Adjustments and Confirmation (Cont'd)*

#### *Confirmations and Representations*

- 5.3.4 We confirm that as at 11 November 2009, 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.
- 5.3.5 In accordance with auditing standards, we obtained representations from the College on material issues.





## Appendix I - Confirmation of Independence

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### 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 11 November 2009, 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