

Meeting of Audit Committee

On Tuesday 19 February 2019

At 1.30 pm in the Board Room

A G E N D A

Number	Item	Presented By	Action Required: Decision, Discussion, For Noting
A.19.1.01	(i) Resignations	Clerk	Noting
	(ii) Appointments		
A.19.1.02	Apologies for Absence	Clerk	Noting
A.19.1.03	Any Additional Declarations of Interest including specific items on this Agenda	Convenor	Noting
A.19.1.04	Draft Minutes of Joint Audit and Finance and General Purposes Committee meeting held on 27 November 2018 *	Convenor	Decision
A.19.1.05	Draft Matters Arising/Action Sheet from Audit and Finance and General Purposes Committee meeting held on 27 November 2018 *	Clerk	Noting
A.19.1.06	Review of Terms of Reference of the Audit Committee *	Convenor	Discussion
	(i) Discussion of principles of changes required		
	(ii) Timeline for drafting detailed changes and Board approval		
A.19.1.07	Internal Audit	Henderson Loggie	Noting/Discussion
	(i) Internal Audit Plan 2018-19 *		
	(ii) Timeline and report on status of work against plan		
	(iii) Audit Register review and Update *	Mr N Clinton	Noting
A.19.1.08	Policy Review Update *	Mr D Duncan	Noting

A.19.1.09	Risk Register *	Mr N Clinton	Discussion
	(i) Risk Register Update		
	(ii) Risk Management Process – actions arising from Audit recommendations		
	(iii) Review of Risk item: Managing IT Risk (Technology not fit for purpose)	Mr D Duncan	
A.19.1.10	External Audit		
	(i) Matters Arising from Committee's response to EY Letter on Governance*	Convenor	Discussion
A.19.1.11	OSCR matters, overview of governance requirements.	Mr N Clinton	Discussion
A.19.1.12	Emerging Issues	Convenor	Discussion
	(i) Recruitment of Committee member		
	(ii) GDPR Update	Mr D Duncan	Noting
A.19.1.13	Evaluation of Audit Committee *	Convenor	Noting
	(i) Options for CDP		
RESERVED ITEMS			
A.19.1.14	Draft Reserved Minutes from Joint Audit and Finance and General Purposes Committee held on 27 November 2018*	Convenor	Decision
A.19.1.15	Draft Reserved Matters arising from Joint Audit and Finance and General Purposes Committee held on 27 November 2018 *	Mrs C Fair	Noting
A.19.1.16	Renewal of contract for Internal Audit Services, overview and status	Mr N Clinton	Discussion
A.19.1.17	Date of next meeting – 21 May 2019	Mrs C Fair	Noting

BOARD OF MANAGEMENT

Joint Audit Committee and Finance and General Purposes Committee

**Draft Minutes of Meeting
held on
Tuesday 27 November 2018
at 1.30 pm in the Boardroom**

Present: Dr J McLeman (Convener)
Mrs D Newton
Mr J Yorston
Mrs Patricia Eddie
Mr M Easton
Mr P Graham
Mrs C Webster
Mrs R McCormack
Mr J Bodman
Mr J Knowles
Mr D Patterson

In attendance: Mr N Clinton
Mr D Duncan
Mrs Carolyn Thomson
Mr S Reid (EY)
Mr D Archibald Henderson Loggie (HL)
Mrs C Fair (Clerk)
Mrs E Melton (Minute Secretary)

		ACTION	DATE
A.18.4.01	Closed Session		
1.1	A closed session took place with external auditors and Audit Committee members. The Convenor will follow up any matters arising.		
A.18.4.02	Resignations and Appointments		
2.1	Mr David Dalziel resigned from the Audit Committee with effect from 25-11-2018 due to personal work commitments.		
A.18.4.03	Apologies for Absence		
3.1	Apologies for absence had been received from: Mr Nathan Sanderson – HISA and Ms Manon Wells Jesus HISA		
A.18.4.04	Any additional Declarations of Interest including specific items on Agenda		
4.1	No additional declarations of interest were noted.		
A.18.4.05	Minutes of Meeting of the Audit Committee on 9 October 2018		

		ACTION	DATE
5.1	The minutes were accepted as a true and accurate record and approved by the Committee: Proposed: Mr J Yorston Seconded: Mrs D Newton		
A.18.4.06	Matters Arising/Action Sheet from meeting of Audit Committee on 9-10-2018		
	Mrs Fair confirmed the status of the actions arising the majority of which had been completed and closed or were on the Agenda for discussion. Only the following actions remain open/outstanding:		
6.1	<u>6.3</u> - To offer Moray to use the new Sharepoint reports as a trial to enable MIS reports be provided – remains outstanding	Remains open	
Action	Mr Clinton to chase up with Roger Sendall	Mr Clinton	ASAP
6.2	<u>15.1</u> – To update Committee schedule of meetings to reflect policies which are due for review by various Committees	Remains open	
Action	Mrs Fair to update Board Plan and Committee Schedule to reflect Policy schedule presented by Mr D Duncan.	Mrs Fair	ASAP
A.18.4.07	Matters Arising from UHI Joint Chairs' Meeting		
7.1	Dr McLeman highlighted the key issues discussed at the UHI Joint Chairs' meeting which took place on 14 November 2018. UHI still liaising with SFC and Auditors in relation to progressing single regional audit certificates. Business Continuity Planning was discussed and lessons learned from the exercise. Progress in relation to Partnership Assembly was also discussed. Compliance with the Code of Good Governance checklist was discussed and the approach to completion of the checklist. Some Colleges had sat as a Board and worked through the checklist. Partnership risks – Scrutiny, influence, assurance and visibility of mitigating actions was also a major topic for discussion; and it was suggested that the issue needs to be considered further. This was also recently discussed at FERB. The issue of 'deep dives' was also the focus of discussion and the different approaches taken in relation to these. It was suggested Directors present how they manage their directorate risks. The new requirement that all Final Financial Statements and Returns for assigned Colleges are submitted through their Regional Strategic Body who would collate and forward to SFC was noted.		
A.18.4.08	Internal Audit		
8.1	(i) Annual Report from Internal Auditors – Henderson Loggie		

		ACTION	DATE
	<p>Mr Archibald highlighted the key points from the Annual Report from Henderson Loggie. He concluded that the College has adequate and effective arrangements for risk management control and governance, and proper arrangements are in place to promote and secure Value for Money. All work was assessed as Satisfactory or provided an unqualified opinion and no significant issues raised, indicating a much improved picture from the previous year .</p> <p>Mr Archibald also highlighted the follow up work on 62 historic outstanding internal audit actions, all of which have now been closed off. The Committee noted that 5 subsequent actions these have also now been fully implemented. . The Committee formally recorded their thanks to the College Management Team for the tremendous effort that has been evident to bring this to a conclusion.</p>		
	(ii) Final Moray College Student Supports Funds Report 2017-18		
8.2	Mr Archibald confirmed that HL had offered an unqualified opinion in relation to the Moray College EMA Annual Report for 2017-18 and the Student Support Funds Return for 2017-18.		
	(iii) Final Report on Staff Development 2017-18		
8.3	<p>Mr Archibald confirmed the overall level of assurance for 8 objectives was Satisfactory with a positive picture of 7 out of 8 being Good. Only one area recommended a couple of improvements in relation to a consistent approach to staff induction and the staff review process. However, the Committee noted that there is currently a UHI wide initiative to address staff induction. Mrs Thomson, Director of HR and Organisation Culture had been invited to the meeting and was able to provide the Committee with assurance in relation to the timescales for implementing the recommendations made including staff training for the Curriculum Management Team on how to effectively conduct staff reviews.</p> <p>The Committee agreed the actions and associated timescales set out in the management response.</p>		
	(iv) Final Report on Risk Management Process and Business Continuity		
8.4	Mr Archibald confirmed the overall level of assurance was Satisfactory in relation to all 3 objectives. He went on the highlight some of the weaknesses including the fact there		

		ACTION	DATE
	was room for improvement in terms of the risk Management Procedure. Recommendations include rolling out Risk Management Training for all staff. The Committee agreed the actions and associated timescales set out in the management response.		
Action	Proposed changes to Risk Management Procedure to go to next Audit Committee	Mr Clinton	Feb Audit
	(v) Internal Audit Plan and scopes for 18/19		
8.5.1	<p>The Committee were asked to consider the proposed plan along with outline scopes and objectives for internal Audit for the remainder of the year 18-19 which included:</p> <ul style="list-style-type: none"> • Health and Safety • Quality Assurance and Improvement • Payroll • Procurement • Student Support Funds, EMA and FE Credit Activities – Compulsory Audits <p>At the previous Committee meeting a suggestion was also made to conduct an internal audit on the compliance with the Code of Good Governance. However, as the external audit feedback on this only highlighted two areas of non-compliance, which have since been addressed, it was agreed not to pursue an internal audit of this area.</p> <p>Some subsequent discussion took place on whether a follow up review should take place on the Board Effectiveness Review which was conducted in 2017.</p>		
Action	The Committee noted that all outstanding recommendations from this have since been addressed but Mr Clinton and Mr Archibald to check whether this should be on the plan.	Mr Archibald Mr Clinton	ASAP
8.5.2	<p>The Committee were asked to consider whether a follow up review on Strategic Planning was appropriate which would focus on the KPIs and Operational Planning underpinning the Strategic Plan. There was a view that the previous audit on corporate planning was recent and the new process needed to 'bed in'. On the other hand, there was a view that this subject area potentially posed more higher risk.</p> <p>In any event, the Committee noted the comments and suggestions made when planning future audits.</p> <p>The audit scopes were agreed as presented to the Committee for the work areas set out. If following the</p>		

Agenda Item: A.19.1.04

		ACTION	DATE
	outcome of the work by Mr Clinton and Mr Archibald or other further reflection, as above, any adjustment to the plan would need to be considered further at the next meeting of the Committee.		
8.5.3	Some subsequent discussion took place around the possibility of requesting an audit of the processes used UHI wide for funding allocations and adjustments and the associated financial risks to academic partners. It was agreed this would need to be addressed at Regional level. The Committee suggested that this is taken to UHI through FERB		
Action	To suggest FERB request an internal audit review of funding allocations and adjustments in view of the financial risks to partners.	Mr Graham	ASAP
8.5.4	The Committee were asked to consider a spreadsheet containing a timeline for production of Reports to the Audit Committee. It was requested that this be improved by clarifying exact dates for production of reports and timely presentation of final reports to the Committee.		
Action	Mr Clinton was asked to update the plan to support production of final reports to the relevant meeting of the Committee.	Mr Clinton	ASAP
	(vi) Audit Register Update		
8.6.1	As reported by Mr Archibald in the HL Annual Report, Mr Clinton was able to confirm that all outstanding historic audit recommendation have now been addressed. This represents 62 audit recommendations that have been deemed completed/closed off by HL. Five audit recommendations from more recent internal audit reports carried out have also been confirmed completed by HL within the anticipated timeframe. The Committee acknowledged the significant achievement by the College Management in respect of this and particularly Mr Clinton.		
A.18.4.09	GDPR Update		
9.1	Mr Duncan had been asked to report any data breaches to the Audit Committee. He confirmed that there had been one incident relating to a member of staff responding to a phishing e-mail (HMRC related). DPO had been informed and no further action was warranted. There had been no Subject Access Requests nor Right to Erasure Requests.		
A.18.4.10	Policies		
	(i) Updated timetable/overview of policies and Proposed review dates		
10.1.1	Mr Duncan's Policy update paper included a schedule for approval of Policies to end June 2019. He confirmed that		

		ACTION	DATE
	this goes to the monthly SLT meeting to review. He assured the Committee that by June 2019 the backlog will be addressed, as well as those policies due for review in that period. He suggested circulating the policies outwith Committee meetings to avoid taking up significant time during the meetings.		
Action	It was suggested that Mr Duncan take this up with Committee Convenors individually	Mr Duncan	ASAP
Action	It was further requested that a report (by spreadsheet if appropriate) be provided to the Committee to allow it to monitor progress in reviewing all policies.	Mr Duncan	Feb Audit Committee
10.1.2	It was noted that some policies will be part of the UHI Single Policy Environment Project and it was suggested that this issue is taken up with Diane Rawlinson.		
Action	Next iteration of the Policy schedule to clarify which are UHI and which are local policies.	Mr Duncan	Feb Audit Committee
	(ii) Policies due for Review		
	a. Gifts, Hospitality & Entertainment Policy		
	b. Fraud Policy & Response Plan		
	c. Anti-Bribery Policy		
10.2.1	The Committee were asked to approve the above policies. Some minor changes were suggested by the Committee.		
Action	To clarify within each responsibilities for communicating the policy. There were additionally some technical comments which Mr Clinton would follow up with Mrs Newton.	Mr Clinton	ASAP
NOTE	The Committee approved the policies subject to minor amendments.		
A.18.4.11	Risk Register		
11.1	Mr Clinton advised the Committee that SLT had met recently to review risk. They had subsequently updated the Risk Register accordingly and confirmed Moray Growth was now included on the Register. The Committee noted the Risk Register.		
RESERVED ITEMS			
A.18.4.12	Draft Reserved Minutes from Audit Committee held on 9 October 2018		
12.1	This matter is reserved and the minute held in confidence.		
A.18.4.13	Draft Reserved Matters Arising from Audit Committee held on 9 October 2018		
13.1	This matter is reserved and the minute held in confidence.		
A.18.4.14	Annual Report from External Auditors		
14.1	This matter is reserved and the minute held in confidence.		
A.18.4.15	Review of 17/18 Statutory Accounts		
15.1	This matter is reserved and the minute held in confidence.		

Agenda Item: A.19.1.04

		ACTION	DATE
A.18.4.16	Draft Annual Report from Audit Committee to the Board		
16.1	This matter is reserved and the minute held in confidence.		
A.18.4.17	Code of Good Governance		
17.1	This matter is reserved and the minute held in confidence.		
A.18.4.18	Date of next meeting – 9 February 2018		
18.1	<i>Meeting closed at 1730 hours</i>		

Matters Arising from Audit Committee 27-11-2018
Agenda item: A.19.1.05

		ACTION	DATE	Update
A.18.4.06	Matters Arising/Action Sheet from meeting of Audit Committee 9-10-2018			
6.1	<u>6.3</u> To offer for Moray to use the new Sharepoint reports as a trial to enable MIS reports to be provided – Mr Clinton to chase up with Roger Sendall	Mr Clinton	ASAP	On Agenda
6.2	<u>15.1</u> – To update Board Plan and Committee Schedule of meetings to reflect policies which are due for review	Mrs Fair	ASAP	Completed and on Agenda
A.18.4.08	Internal Audit			
	(iv) Final Report on Risk Management Process and Business Continuity			
8.4	Proposed changes to Risk Management Procedure to go to next Audit Committee	Mr Clinton	Feb Audit	On Agenda
	(v) Internal Audit Plan and Scopes for 18/19			
8.5.1	The Committee noted that all outstanding recommendations from the Board Effectiveness Review have since been addressed but Mr Clinton and Mr Archibald to check whether this should be on the plan	Mr Clinton Mr Archibald	ASAP	Completed
8.5.2	Committee requested to provide feedback to Dr McLeman and Mr Clinton on suggested scopes for Audit Reports	Committee	ASAP	Completed
8.5.3	To suggest FERB request an internal audit conducted on funding allocations	Mr Graham	ASAP	On Agenda
8.5.4	Mr Clinton was asked to include additional dates to clarify exact dates for production of Audit reports and presenting to the Committee.	Mr Clinton	ASAP	
A.18.4.10	Policies			
	(i) Updated timetable/overview of policies and proposed review dates			
10.1.1.1	It was suggested that Mr Duncan take up with Convenors the issue of circulating policies outwith Committee meetings to avoid taking up significant time during the meetings.	Mr Duncan	ASAP	Issue policies in advance of Committee meetings
10.1.1.2	It was further suggested that a spreadsheet be updated regularly to monitor progress	Mr Duncan	As required.	Achieved

Matters Arising from Audit Committee 27-11-2018

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10.1.2	Next iteration of the Policy schedule to clarify which are UHI and which are local policies	Mr Duncan	Feb Audit Committee	Mr Duncan will add additional columns to show this
	(ii) Policies due for Review			
	a. Gifts, Hospitality & Entertainment Policy			
	b. Fraud Policy & Response Plan			
	c. Anti-Bribery Policy			
10.2.1	To clarify who is responsible for communicating policies	Mr Clinton	ASAP	Policy Owner

Agenda Item Reference: A.19.1.06

Title of Paper:	Review of Terms of Reference of Audit Committee			
To Committee:	Audit Committee			
Subject:	Terms of Reference of Audit Committee			
Version number and date:				
Brief summary of the paper:	A review of the Standing Orders of the Board of Management is currently being undertaken. The review is due by the end of 2019. It would seem sensible and timely to also undertake a review of the terms of reference of each of the Board's Standing Committees at the same time.			
Recommendations:	Committee is asked to consider the current terms of reference and check if they are still fit for purpose.			
Action requested/decision required:	Consider current terms of reference against the work of the Committee and make any recommended changes to be incorporated into the review of the Standing orders.			
Status: (please tick ✓)	Reserved:		Non-reserved:	✓
Date paper prepared:	14-2-2019			
Date of committee meeting:	19-2-2019			
Author:	Cathie Fair			
Link with strategy: Please highlight how the paper links to, or assists with: Strategic Plan including <ul style="list-style-type: none"> • Curriculum • Learning and Teaching • Organisational culture • Partnership • Sustainability 				
Equality and diversity implications:				
Resource implications: <i>(If yes, please provide detail)</i>				

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Risk implications: <i>(If yes, please provide detail)</i>	Risk that terms of reference do not accurately reflect the current work of the Audit Committee
Appendices:	Current terms of reference of the Audit Committee and Terms of Reference of Inverness College UHI
References:	<i>References to anyone else's work, publications or journals</i>

AUDIT COMMITTEE**Terms of Reference****Authority and Responsibility**

The Audit Committee is accountable to the Board of Management of Moray College and is authorised to assess the adequacy and effectiveness of the Colleges internal control systems.

The responsibilities of the Audit Committee are to:

provide assurance to the Board regarding the auditing of governance, internal control and risk management, and to engage with financial reporting issues;

monitor and make recommendations in the areas of finance and management arising from audits undertaken by College management, internal and external audit;

ensure the College systems operate in an efficient, effective and economical manner that promotes full compliance with guidance and regulations governing the Further and Higher Education Sectors;

ensure the College systems provide value for money in the provision of services and purchasing;

to review and advise on the provision of internal and external audit services.

To review and advise on the Annual Internal Audit Plans

Membership

The Committee should comprise at least three lay members appointed by the Board. The experience of the members should preferably but not exclusively cover the areas of finance, accounting or auditing and risk management, but at least one member should have recent relevant financial or audit experience.

In order not to jeopardise, or to be perceived to jeopardise, the Audit Committee's objectivity or independence, members should not have executive responsibility for the management of the College or its finances, or be a member of the Finance & General Purposes Committee. The Chair of the Board should not be a member of the Audit Committee.

The Committee may co-opt non-executive members who are not members of the Board, and who have particular relevant experience or expertise. Co-opted members may not be appointed to be Convener of the Committee or attend Board meetings but their status in other respects will be equivalent to full Board members.

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The Board will appoint the Convener of the Committee.

Proceedings

The Committee should meet at least three times a year and the timing and content should meet the requirements and schedule of the Board meetings.

Internal auditors will normally be invited to attend meetings. The Committee Chair may invite members of the College executive/staff to attend a meeting to provide information about particular agenda items, with reference to the areas of responsibility under discussion.

The Committee may sit privately without any non-members present for all or part of a meeting if they so decide;

The external auditor should attend, as a minimum, any meetings where relevant matters are being considered such as planned audit coverage, the audit report on the financial statements and the audit management letter.

Both internal and external auditors have a right of access at any time to the Convener of the Committee, and also the right to ask the Convener to convene a meeting if either deems it necessary. They also have the right to ask for such meeting to be in closed session.

Internal and external auditors will meet with the Audit Committee once per year in private without any College executive in attendance.

The Clerk to the Board of Management will act as Secretary to the Committee. S/he will be responsible for establishing and maintaining effective mechanisms to inform the Committee of relevant reports and other publications that impact on the Committee's work.

At all meetings, the quorum shall be at least one third of the total number of its members, subject to a minimum of three where the substantive membership is five or more, or two where it is less than five.

Annual Report

The Committee will provide an annual report to the Board of Management, encompassing:

Administrative matters, including:

Membership details, including changes in membership and chairmanship

Frequency of meetings and attendance

Agenda Item Reference: A.19.1.06

Internal audit, including:

Annual report by the internal auditor to the Audit Committee
Review of internal audit's scope and effectiveness
Following year's proposed internal audit plan

External audit, including:

Scope
Consideration of the College's Annual Financial Statement
Consideration of auditor's opinion on the College's Annual Financial Statement
Review of the external auditor's management letter including management responses to recommendations

Other matters, including:

Financial and control systems development
Fraud and irregularity

Terms of Reference of the Board of Management of Inverness College UHI

Lead Officer	Chair of the Board of Management
Review Officer	Secretary to the Board of Management
Date first approved by BoM	June 2015
First Review Date	June 2017
Date review approved by BoM	
Next Review Date	
Equality impact assessment	N/A
Further information (where relevant)	

Reviewer	Date	Review Action/Impact

Board of Management Terms of Reference

Membership

The membership of the Board will be as determined by the Post 16 Education (Scotland) Act 2013 and as set out in paragraph 3.2 of the Constitution.

Quorum

One half or fifty percent of the actual membership of the Board. Ordinary members must be in a majority at the meeting.

Frequency of Meetings

The Board shall meet no less than four times each year.

Specific

The Board has responsibility for overseeing the business of the College, determining its future direction and fostering an environment in which the College mission is achieved and the potential of all learners is maximised.

The Board of Management must ensure compliance with the statutes, ordinances and provisions regulating the College and its framework of governance and, subject to these, take all final decisions on matters of fundamental concern to the College.

The following items are retained for approval by the Board, upon advice from or recommendation by the relevant Committee where appropriate and may not be delegated:

1. determining the objectives of the Board of Management;
2. matters of new policy or variation of existing policy;
3. borrowing money (other than overdraft facilities within the Principal's delegated authority) and, in connection with such borrowing, granting securities or giving guarantees or indemnities. Any such borrowing, granting securities or indemnities must comply with Section 12.7(a) of the Further and Higher Education (Scotland) Act 1992;
4. the final approval of the annual budget;
5. the final approval of the College Strategic Plan;
6. approval of the year end Annual Accounts and Financial Statements for submission to the Regional Strategic Body;
7. approval of material changes to staff pay levels to the extent that any such changes fall outwith the terms of the approved annual budget of the College or any delegation to the Joint Negotiating Committee or otherwise in terms of this Scheme of Delegation and/or the Constitution;
8. the final consideration of the Annual Audit Report;
9. the acquisition and disposal of heritable property, whether by way of sale, transfer, assignation, lease, licence or otherwise or the granting or any standard securities, charges or any other rights in respect of any heritable property which relate to the College's title thereto;

10. The appointment of co-opted members
11. The appointment of members and co-opted members to standing committees;
12. the appointment of and disciplinary action against the Principal;
13. the approval of early retirement packages, enhanced pension arrangements or financial packages in excess of statutory provisions;
14. delegation of functions of the Board of Management;
15. the making, amendment and revocation of the Constitution and Standing Orders of the Board of Management (including, but not limited to, the code of conduct, Committee terms of reference and the Scheme of Delegation;
16. entering into of any material contracts or any contract or transaction which is not in the ordinary and proper course of the business of the College and on arm's length terms;
17. commencing any legal or arbitration proceedings (other than routine debt collection);
18. establishing committees and determining the terms of reference thereof; and
19. forming or promoting or joining with any other person in forming or promoting companies.
20. any functions, the exercise of which is clearly reserved to the Board in terms of any direction by Parliament or the Scottish Funding Council

Audit Committee Terms of Reference

Membership

Not less than 5 members of the Board of Management.

At least one member of the Committee should have recent and relevant experience in finance, accounting or auditing.

Board members not eligible for appointment are the Chair of the Board, the Principal, members elected by the teaching and non-teaching staff of the college and the person appointed by the Students Association.

No member of the Finance and General Purposes Committee shall also be a member of the Audit Committee

The Chair of the Board and the Principal may be invited to attend meetings

Membership of the Committee should satisfy the requirements of the SFC Code of Audit Practice, and / or other appropriate guidance, as may be directed by the Board of Management.

Quorum

Three members of the Committee entitled to vote upon the items before the meeting.

Frequency of Meetings

The Committee will meet no less than three times each year.

Remit

The Committee's remit is to review and monitor the following aspects of the College's operations, and to advise the Board appropriately on the:

1. Governance and management of the College.
2. Risk management and business continuity.
3. Adequacy of the College's financial management.
4. Effectiveness of the internal control and management systems.
5. Effectiveness of arrangements for safeguarding the assets of the College and the public funds at its disposal.
6. Economy, efficiency and effectiveness of the College's activities.
7. Effectiveness of the corporate governance and conduct of the College operations.
8. Internal audit.
9. External audit.
10. Value for money audit.
11. Health and Safety
12. Public interest disclosure (whistle-blowing) arrangements.
13. Data Protection and Freedom of Information

Specifically, the Audit Committee shall:

1. Receive updates to and review the contents of the risk register maintained by the College.
2. Review the reports submitted by the College's Internal Auditors and receive progress reports from College Management on the Internal Audit recommendations.
3. Jointly with the Board's Finance and General Purposes Committee review the annual report of the College's external auditors and the associated College financial statements on which that report is based
4. prepare an annual report for the Board of Management

The Audit Committee shall conduct its business in accordance with the requirements of any guidance and/ or codes of practice issued from time to time by the SFC and/ or any other relevant statutory or regulatory authority, as directed by the Board of Management.

Finance and General Purposes Committee - Terms of Reference

Membership

Not less than five Members of the board of Management including the Chair and Principal who are members *ex officio*.

Quorum

Three members of the Committee entitled to vote upon the items before the meeting.

Frequency of Meetings

The Committee shall meet no less than four times each year.

Remit

The Committee has overall responsibility (within the Financial Memorandum between the College and the Regional Strategic Body) for the direction and oversight of the College's financial affairs.

The Committee has responsibility for the College's existing buildings and estates.

The Finance and General Purposes Committee shall:

1. Monitor the financial control of the college and keep the College Financial Regulations under review.
2. Review and approve the establishment of any arrangements to provide the College with banking facilities. This is subject to the authorisation limits set by SFC for the drawing down of loans.
3. Monitor actual expenditure and income against budget and report to the Board on any necessary action.
4. Monitor capital expenditure against agreed development plans.
5. Consider financial benchmarking information and monitor unit costs.
6. Advise the Board on financial strategy.
7. Review the effectiveness of financial management within the College.
8. Recommend to the Board the college's annual budget.
9. Consider and report on the annual financial statements.
10. Approve all key decisions taken in relation to college finance.
11. Make recommendations to the Board regarding the level of tuition fees and other charges.
12. Approve fee waivers on behalf of the Board and approve the write-off of bad debts (in accordance with the limits set in the Scheme of Delegation).
13. Consider and report on any other financial matters which the Board may delegate or refer from time to time.
14. Consider, and contribute to, the overall risk management strategy of the college.
15. Ensure compliance with statutory and regulatory requirements;
16. Consider and report on Shared Services in so far as they relate to the provision of such services to the college
17. Consider and report on issues of procurement
18. Consider and recommend to the Board on all matters relating to the operation of the Arms Length Foundation

19. Consider and report on all matters relating to student residences
20. Consider and report on all matters relating to the operational stage of the New Campus buildings
21. Ensure that the college's existing buildings and estates are fit for purpose;
22. Ensure that the college's existing buildings and estates are maintained to an appropriate standard;
23. Ensure that the college's existing buildings and estates are reasonably accessible and comply with the terms of the Equality Act 2010 and
24. Provide a healthy and safe environment for the college's staff, students and visitors.

Human Resources Committee Terms of Reference

Membership

Not less than five Board Members, including the Chair and Principal who are members *ex officio*.

Board Members who are employed at the College may not Chair the Committee.

Quorum

Three members of the Committee entitled to vote upon the items before the meeting.

Frequency of Meetings

The Committee shall meet no less than four times each year.

Remit

The Committee has overall responsibility for the direction and oversight of all personnel matters relating to the function of the Board of Management as employer of the College's staff.

The Committee shall oversee the development and auditing of all human resource strategies and work streams and this shall include:

1. Overseeing the Human Resources Strategy and Annual Action Plan and monitoring actual performance against KPIs.
2. Auditing Human Resource policies and practices within the College, including those relating to recruitment and selection, terms and conditions of employment including Discipline and Grievance, Health and Safety, and training and development, staff development and appraisal.
3. Overseeing the provision of occupational health support, the provision of computerised human resources systems and a Job Evaluation system.
4. Monitor progress against Equality Scheme Action Plans.
5. Monitor the Investors in People standard and ensure the College provides appropriate Staff training and development.
6. Ensuring the College has in place an effective Performance Management framework monitored through regular statistical reports to the Committee.
7. Ensuring appropriate arrangements are in place for effective dialogue with trade unions
8. Ensuring that pay and conditions of employment are properly determined and that pension arrangements are monitored
9. Ensuring that the college is operating within all legal requirements relating to employment law and other legislation affecting employment

Learning and Teaching Committee Terms of Reference

Membership

At least five members of the Board, including the Principal *ex officio*, the Teaching Staff Representative and the Student Representatives.

Quorum

Three members of the Committee entitled to vote upon the items before the meeting.

Frequency of Meetings

The Committee shall meet no less than three times each year.

Remit

The Committee has overall responsibility for monitoring the direction and performance of learning and teaching at the College.

The Learning and Teaching Committee shall:

1. Monitor the development of the College's Learning & Teaching Strategy.
2. Review the academic and student support aspects of the College Operational Plan to ensure consistency with the Strategic Plan.
3. Recognise trends in education and recommend specific initiatives in the College.
4. Monitor student retention and achievement and request specific action plans, as necessary.
5. Monitor data relating to the student experience at the College.
6. Review all student support mechanisms and structures, and ensure that these meet the needs of learners.
7. Monitor the College's preparations for and aspects of Education Scotland Reviews and other quality reviews.
8. Monitor the development of the College's Research Strategy
9. Monitor the development of the College's International links
10. To receive regular reports from the Students Association and monitor the college response to student concerns

Performance Review and Remuneration Committee Terms of Reference

Membership

Chair of the Board of Management and the Chairs of the standing committees.

The Chair of this Committee must be a member of the Human Resources Committee, and the Chair of the Human Resources Committee must be a member of this Committee.

The Chair of the Board of Management may not Chair this Committee.

The Principal may not be a member of this Committee.

Quorum

Three members of the Committee entitled to vote upon the items before the meeting.

Frequency of Meetings

The Committee shall meet at least once each year.

Remit

The Committee shall consider and make decisions on the remuneration package and conditions of service, and any changes thereof, of the College Principal and such other senior staff as is considered appropriate, taking into account:

1. That College senior management should be fairly rewarded for their individual performance and contribution to the College's overall performance
2. Where, in terms of senior management remuneration, the College stands in relation to other comparable institutions in the sector, organisations of a similar size and the local market;
3. The Scottish Government's approach to remuneration in the public sector;
4. The relationship between the remuneration of the senior management and that of other employees of the College
5. The benefits granted to senior management; and
6. The adequacy of pension arrangements and also the cost implication of pension arrangements including the pension effect of remuneration proposals.

One member of the Board of Management shall represent the Board on the interview panel for Senior Management appointments.

The Committee shall consider such other matters relating to the Board of Management which the Chair shall from time to time determine, in particular in relation to severance payments.

The Committee should endorse any proposals for severance payments to Senior Managers and any exceptional settlements which will require to be formally notified to the Board of Management.

Search and Nomination Committee Terms of Reference

Membership

Chair of the Board of Management and the Chairs of the standing committees.

The Principal shall be excluded from membership of the Committee.

Quorum

Three members of the Committee entitled to vote upon the items before the meeting.

Frequency of Meetings

The Committee shall meet as and when required.

UHI as the Regional Strategic Body has the responsibility for appointment of the Chair and non-executive board members to the Board of Management of Inverness College and will at all times adhere to the College Sector Board Appointments: 2014 Ministerial Guidance.

The UHI Court has established a Nominations Committee, which in turn has delegated responsibility for recruitment and selection to a Selection Panel which will comprise two members of the Nominations Committee, 2 members from the Board of Management of Inverness College and 1 independent person.

Remit

The Search and Nomination committee shall

1. Consider the skills matrix of current Board Members to assist the Selection Panel to determine the skills and experience required of prospective members
2. Agree timescale/location for selection panel meeting
3. Agree where to place advertisements and local groups to circulate
4. Agree further information schedule relevant to Inverness College (with UHI input)
5. Agree local panel membership
6. Agree that standard templates fit circumstances

New Campus Project Board – Terms of Reference

New Campus Project Board shall continue to conduct business only for so long as is considered necessary after the project has been completed and a post implementation review is provided and reported to the Board of Management.

Membership

Chair of the Board of Management

(Chair) Principal (Project Owner)

Five other Board members*

Secretary of UHI

*To include one member from the Audit Committee and one member from the Finance and General Purposes Committee

Quorum

Three members entitled to vote upon the items before the meeting.

Frequency of Meetings

The Project Board shall meet not less than four times per year and in accordance with business requirements.

Reporting

The Project Board will provide regular progress reports on the Project to the Audit Committee and Finance and General Purposes Committee as required.

Remit

The New Campus Project Board will monitor progress on the Project on behalf of the Board of Management, provide advice and support to the Project Steering Group as required and make decisions within the Project Board's delegated authority.

Responsibilities

- Overseeing the progress of the Project on behalf of the Board of Management. The Project Board will operate in an advisory capacity and concern itself with the efficient and effective management and organisation of the Project.
- Maintain visible and sustained strategic commitment to the delivery of the Project.
- Appoint the Project Sponsor and approve the key appointments to the Project Team.
- Review reports from the Project Steering Group and Project Manager.
- Oversight of the implementation of the Estates Strategy as it relates to the new campus development.
- Ensure that communication and consultation strategies are in place for the Project.
- Monitor the risk register established for the Project.
- Monitor regular budget reports.
- To consider any necessary changes to the Project and make

recommendations to the Board of Management.

- At each approval gateway, evaluate the business case and investment proposals to ensure that it is satisfied that risks associated with the Project are being managed effectively and that the Project remains affordable. In the event that any gateway review identifies serious deficiencies, difficulties or budget concerns in respect of the Project, the Project Board shall determine the appropriate means of addressing and remedying such serious deficiencies, difficulties or budget concerns.
- Review and scrutinise the performance of each of: the Project Steering Group; the Project Sponsor; the Project Manager; and the Project Team against their respective responsibilities all as set out in the Project Implementation Plan. In the event that the Project Board considers that: the Project Steering Group; the Project Sponsor; the Project Manager; and/or the Project Team have failed to meet any such responsibilities, the Project Board shall determine the appropriate means of addressing and remedying such failure.
- Ensure that a post-implementation review is provided and reported to the Board of Management.

Delegated Authority

The Project Board shall have authority to make commitments on behalf of the Board of Management, including matters that have received Board approval in principle.

This would include specifically, but not exclusively:

- Conclude any contracts of sale or purchase as previously approved by the Board.
- Post the approval of Stage D design, approve any changes that do not fundamentally change the design concept or result in an aggregated potential capital cost over-run compared to Scottish Government NPD Capital cap of more than £100,000 (any such over-runs to be funded from non NPD sources). The cumulative impact of any such changes to be reported to the Board of Management.
- Post the approval of Stage D design, approve any changes that do not fundamentally change the design concept or result in an aggregated potential cost over-run of more than £100,000. The cumulative impact of any such changes to be reported to the Board of Management.

Chairs Committee Terms of Reference

Membership

The Chair and Vice Chair of the Board of Management, the Chairs of each of the Standing Committees of the Board, and the Principal who is a member *ex officio*.

Quorum

Three members of the Group entitled to vote upon the items before the meeting.

Frequency of Meetings

The Group shall meet no less than four times each year.

Remit

Review the membership and terms of reference of the Board's Standing Committees and the overall effectiveness of the Board's Committee Structure and to recommend to the Board any amendments or additions considered appropriate.

Ensure effective self-evaluation of the Board, its members, its Standing Committees and its Chairs.

Develop the annual Board development day programme.

Oversee the planning of the Board's training and development programme.

Oversee development of the Board's stakeholder engagement.

At the special request of the Board, to consider matters of special interest which are not within the remit of another Standing Committee.

To exercise the functions of the Board in any cases of urgency of which the Chair of the Board, the Vice Chair or the Chair of a Standing Committee shall be the judge and where it is not practicable to convene a meeting of the Board of Management.

Moray College UHI

Internal Audit Annual Plan 2018/19

Internal Audit Report No: 2019/01

Draft Issued: 03 October 2018

2nd Draft Issued: 09 November 2018

3rd Draft Issued: 20 November 2018

Final Issued: 27 November 2018

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1. Introduction

- 1.1 The purpose of this document is to present for consideration by the Audit Committee the annual operating plan for the year ended 31 July 2018. The plan is based on the proposed allocation of audit days for 2018/19 set out in the Audit Needs Assessment and Strategic Plan 2016 to 2019 (Report 2017/01, issued February 2017), which was presented to the Audit Committee and approved at its meeting on 15 March 2017.
- 1.2 The proposed annual operating plan for 2018/19 shows a number of changes to the allocation set out in the Strategic Plan 2016 to 2019. Following discussion at the Audit Committee meetings on 22 May 2018 and 9 October 2018:
 - the planned reviews of Curriculum (Essential Skills), Corporate Governance and Data Protection have been removed from the 2018/19 plan;
 - these have been replaced by a review of Quality Assurance and Improvement, which was originally proposed to be carried out in 2017/18 but removed from that plan, and a review of Payroll; and
 - in addition, the days allocated for a review of Procurement and for Follow-Up reviews have both been increased by one.
- 1.3 An extract from the Strategic Plan, in relation to 2018/19, revised to reflect the changes described in paragraph 1.2, is attached.
- 1.4 At Section 3 of this report we have set out the outline scope and objectives for each audit assignment to be undertaken during 2018/19, together with the audit approach. The outline scopes will be finalised after discussion with responsible managers in each audit area.
- 1.5 Separate reports will be issued for each assignment with recommendations graded to reflect the significance of the issues raised.

2. Strategic Plan 2016 to 2019

Proposed Allocation of Audit Days

	Category	Priority	Actual 16/17 Days	Actual 17/18 Days	Planned 18/19 Days
Reputation					
Communications and Marketing	Gov	M			
Health and Safety	Gov	H			4
Student Experience					
Curriculum – Essential Skills	Perf	H/M			
Quality assurance and improvement	Perf	H/M			4
Student recruitment & retention	Perf	H		5	
Student support	Perf	M			
Staffing Issues					
Staff recruitment and retention	Perf	M/L			
Staff development	Perf	M		4	
Voluntary severance	Perf/Fin	H			
Executive Team Restructure	Gov/Perf	H	4		
Workforce planning	Perf	M			
Payroll	Fin	M			4
Estates and Facilities					
Building maintenance	Fin/Perf	H/M			
Capital projects	Fin/Perf	H/M			
Sustainability	Gov/Perf	M			
Space management	Perf	M			
Asset / Fleet management	Perf	M			
Financial Issues					
Budgetary control)	Fin	H			
General ledger)	Fin	M			
Student fees and contracts / registry	Fin	M			
Procurement and Creditors / Purchasing	Fin	H			5
Debtors/ Income	Fin	M			
Cash & Bank / Treasury management	Fin	M			
Commercial Issues					
Business Development / Research	Fin/Perf	H/M	4		
Organisational Issues					
Risk Management / Business Continuity	Perf	H/M		4	
Corporate Governance	Gov	M			
Corporate Planning	Perf	M	4		
Partnership working	Gov/ Perf	M			

Proposed Allocation of Audit Days (Continued)

	Category	Priority	Actual 16/17 Days	Actual 17/18 Days	Planned 18/19 Days
Information and IT					
IT network arrangements / security	Perf	M			
Data protection	Gov	H	3	5	
FOI	Gov	L			
Systems development / implementation	Perf	M			
IT strategy	Perf	H/M			
Other Audit Activities					
Credits Audit		Required	5	5	5
Bursary and Hardship Funds Audit		Required	3	3	3
EMA Audit		Required	1	1	1
Management and Planning)			4	4	4
External audit / SFC)					
Attendance at audit committees)					
Follow-up reviews		Various	2	2	3
ANA			3		
To be Allocated					
Total			<u>33</u> =====	<u>33</u> =====	<u>33</u> =====

Key

Category: Gov – Governance; Perf – Performance; Fin – Financial

Priority: H – High; M – Medium; L – Low

3. Outline Scope and Objectives

Audit Assignment:	Health and Safety
Priority:	High
Fieldwork to be carried out:	18 March 2019 start date
Audit Committee Meeting:	21 May 2019
Days:	4

Scope

This audit will review the arrangements in place within the College to deal with Health and Safety (H&S) issues.

Objectives

The main objective of this audit will be to review the College's overall arrangements for dealing with H&S issues and to consider whether these are adequate.

We will seek to obtain reasonable assurance that the College has:

- a H&S policy and documented procedures which are communicated to all staff;
- a H&S training programme which includes induction training, refresher training and training for new equipment or legislation;
- regular monitoring of H&S systems to ensure that they are functioning effectively including H&S audits, carried out either internally or by external agencies such as the Health and Safety Executive;
- an incident and accident recording system with follow-up and implementation of new controls where required; and
- regular reporting of H&S to senior management and to the Board of Management.

Our audit approach will be:

From discussion with H&S staff, and review of procedural documentation, we will identify the internal controls in place and compare these with expected controls. A walkthrough of key systems will then be undertaken to confirm our understanding, and this will be followed up with compliance testing where considered necessary. We will report on any areas where expected controls are found to be absent or where controls could be further strengthened.

Audit Assignment:	Quality Assurance and Improvement
Priority:	High/Medium
Fieldwork to be carried out:	11 March 2019 start date
Audit Committee Meeting:	21 May 2019
Days:	4

Scope

During 2017, new and significantly revised quality arrangements and an associated framework were introduced for colleges in Scotland. The framework, How Good Is Our College? (HGIOC?), builds on the existing effective internal quality arrangements within colleges and aligns with Education Scotland quality arrangements for other sectors. Through the use of HGIOC?, colleges and their stakeholders identify what is working well and what needs to improve. The framework is based on the four high level principles (which in turn are underpinned by challenge questions and quality indicators):

- Leadership and quality culture;
- Delivery of learning and services to support learning;
- Outcomes and impact; and
- Capacity for improvement.

In responding to these principles, each college produces an Evaluative Report and an associated Enhancement Plan. These describe the methodology and approaches taken to evaluation and the context in which the evaluation was carried out. Evidence gathered is used to evaluate the accuracy and appropriateness of the college-devised Evaluative Report, Enhancement Plans and associated proposed grading outcomes. Submitted reports are subject to independent scrutiny and endorsement procedures. In January 2018, individual college reports and associated endorsement statements were published on the Education Scotland website.

The scope of this audit will be to review compliance with the College's new quality procedures by Curriculum Directorates and review the progress the College is making to implement the actions identified on its Enhancement Plan.

Objectives

The objective of our audit will be to obtain reasonable assurance that:

- the College's quality procedures are being adhered to in key areas; and
- progress is being made with implementation of the actions identified on the College's Enhancement Plan.

Our audit approach will be:

We will assess whether the above objectives have been met through discussion with College senior management, and a sample of other relevant managers and staff, review of documentation and sample testing.

Audit Assignment:	Payroll
Priority:	Medium
Fieldwork to be carried out:	26 February 2019 start date
Audit Committee Meeting:	21 May 2019
Days:	4

Scope

This audit will consider the key internal controls in place over the College's spend on staff costs of approximately £10m per annum. Our audit will cover the procedures in place within both Human Resources and Finance.

Objectives

The objective of our audit will be to obtain reasonable assurance that systems are sufficient to ensure:

- correct calculation of gross pay and deductions;
- correct calculation of employer national insurance and superannuation contributions;
- part-time lecturers, overtime and travel & subsistence payments are properly authorised;
- approval and checking of changes to employee standing data;
- starters and leavers are properly treated and enter and leave the system at the correct dates; and
- proper authorisation, processing and recording of payments.

Our audit approach will be:

From discussion with Human Resources and Finance staff, and review of procedures documentation, we will identify the key internal controls in place within the College's Human Resources / Payroll systems and compare these with expected controls. We will report on any areas where expected controls are found to be absent or where controls could be further strengthened.

Compliance testing will then be carried out to ensure that the controls in place are operating effectively, concentrating on starters, leavers and variations to pay.

Assignment:	Procurement
Priority:	High
Fieldwork to be carried out:	22 April 2019 start date
Audit Committee Meeting:	October 2019
Days:	5

Scope

This audit will focus on the systems of internal control in place for the ordering of goods and services including for capital projects.

We will also consider whether the procurement strategy followed and procedures in place support best value purchasing across the College in relation to non-pay spend.

Objectives

The specific objectives of the audit will be to ensure that:

- the College's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations');
- procurement procedures ensure that:
 - ◆ areas of high spend across the College are monitored appropriately;
 - ◆ opportunities for pooling of expenditure are identified in order to achieve best value; and
 - ◆ collaborative procurements and frameworks available to the College are utilised where appropriate;
- purchase orders are completed for relevant purchases and are approved by members of staff with sufficient delegated authority prior to issue to suppliers, with the risk of unauthorised and excessive expenditure being minimised;
- the College's procurement guidance on quotes and tenders are being complied with; and
- the capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust.

Our audit approach will be:

From discussions with Procurement staff, and a sample of budget holders, we will establish what procurement strategies, procedures and monitoring arrangements are in place within the College. These will then be evaluated to establish if they follow recognised good practice.

Assignment:

Procurement (Continued)

Our audit approach will be (Continued):

Specifically, we will seek to establish whether the procurement procedures ensure that areas of high spend across the College are monitored appropriately, identifying opportunities for pooling of expenditure in order to achieve best value, and ensuring that joint purchasing arrangements available to the College are utilised where appropriate.

We will also review relevant documentation including minutes, option appraisal documents etc. in relation to the capital investment appraisal process.

Audit Assignment:	Credits Audit
Priority:	Required audit
Fieldwork to be carried out:	September 2019
Audit Committee Meeting:	November 2019
Days:	5

Scope

Credits Audit Guidance issued by SFC requests that colleges obtain from their auditors assurances as to the reasonableness of procedures used in the compilation of the Credits related element of the FES return.

Objectives

To obtain reasonable assurance that:

- the student data returns have been compiled in accordance with all relevant guidance;
- adequate procedures are in place to ensure the accurate collection and recording of the data; and
- the FES return contains no material mis-statements.

Our audit approach will be:

Through discussion with College staff, and review of relevant documents, we will record the systems and procedures used by the College in compiling the returns and assess and test their adequacy. We will carry out further detailed testing, as necessary, to enable us to conclude that the systems and procedures are working satisfactorily as described to us.

Detailed analytical review will be carried out obtaining explanations for significant variations from previous year.

Our testing will be designed to cover the major requirements for recording and reporting fundable activity and any general areas of risk identified in the Credits Audit Guidance.

We will also review the final error report from the FES on-line checks.

Audit Assignment:	Student Support Funds Audit
Priority:	Required audit
Fieldwork to be carried out:	September 2019
Audit Committee Meeting:	November 2019
Days:	3

Scope

We will carry out an audit on the College's student support funds for the year ended 31 July 2019 and provide an audit certificate.

Objectives

The audit objectives will be to obtain reasonable assurance that:

- the College complies with the terms, conditions and guidance notes issued by SFC and the Student Awards Agency for Scotland (SAAS);
- payments to students are genuine claims for hardship or bursary, and have been processed and awarded in accordance with College procedures; and
- the information disclosed in the return for the year ended 31 July 2019 is in agreement with underlying records.

Our audit approach will be:

- Reviewing new guidance from SFC and SAAS, and identifying internal procedures through discussion with College staff, and review of relevant documents;
- Agreeing income to letters of award;
- Reconciling expenditure through the financial ledger to returns, investigating reconciling items;
- Reviewing for large or unusual items, obtaining explanations where necessary; and
- Carrying out detailed audit testing, on a sample basis, on expenditure from the funds.

Audit guidance issued by SFC will be utilised. This includes 'Areas of risk and audit considerations' for bursaries; and the Further Education Discretionary Fund and Childcare Funds.

Audit Assignment:	EMA Audit
Priority:	Required audit
Fieldwork to be carried out:	September 2019
Audit Committee Meeting:	November 2019
Days:	1

Scope

Guidance on the audit requirements for Education Maintenance Allowances (EMAs), issued by SFC, includes the requirement to have a separate audit of EMAs on an academic year (August to July) basis.

Objectives

To obtain reasonable assurance that:

- the information set out in the EMA returns is in agreement with the underlying records;
- the College used the funds in accordance with SFC and the Scottish Government's conditions and the principles of the EMA programme; and
- the systems and controls for the administration and disbursement of the funds are adequate.

Our audit approach will be:

Through discussion with Student Finance staff, and review of relevant documents, we will record the systems and procedures used by the College in compiling the EMA returns and assess and test their adequacy. We will carry out further detailed testing, as necessary, to enable us to conclude that the systems and procedures are working satisfactorily as described to us.

Audit Assignment:	Follow-Up Reviews
Priority:	Various
Fieldwork to be carried out:	In advance of each Audit Committee meeting
Audit Committee Meeting:	All
Days:	3

Scope

This review will cover the following reports from the 2017/18 internal audit programme and reports from earlier years where previous follow-up identified recommendations outstanding:

- Internal Audit Report 2018/02 – Data Protection
- Internal Audit Report 2018/03 – Student Recruitment and Retention;
- Internal Audit Report 2018/05 – Staff Development;
- Internal Audit Report 2018/06 – Risk Management; and
- Internal Audit Report 2018/07 – 2017/18 Student Activity Data.

Objective

To establish the status of implementation of recommendations made in previous internal audit reports.

Our audit approach will be:

- for any recommendations made in each of the reports listed above ascertain by enquiry or sample testing, as appropriate, whether they have been completed or what stage they have reached in terms of completion and whether the due date needs to be revised; and
- update the College's Audit Register, which provides a summary of the current status of the recommendations for the Audit Committee.



Moray College UHI

Internal Audit Progress Report 2018/19 Annual Plan

19 February 2019

Progress with the annual plan for 2018/19, approved in November 2018, is shown below.

Audit Area	Planned reporting date	Report status	Report Number	Overall Conclusion	Audit Committee	Comments
Annual Plan 2018/19	October 2018	Draft 03/10/18 2 nd Draft 09/11/18 3 rd Draft 20/11/18 Final 27/11/18	2019/01	N/A	09/10/18 27/11/18	
Health and Safety	May 2019					Agreed start date for fieldwork 18/03/19.
Quality Assurance and Improvement	May 2019					Agreed start date for fieldwork 11/03/19.
Payroll	May 2019					Agreed start date for fieldwork 26/02/19.
Procurement	October 2019					Agreed start date for fieldwork 22/04/19.
Credits Audit	November 2019					Fieldwork to be undertaken in September 2019 to meet SFC deadline.
Student Support Funds Audit	November 2019					Fieldwork to be undertaken in September 2019 to meet SFC deadline.

Internal Audit Progress Report February 2019

Audit Area	Planned reporting date	Report status	Report Number	Overall Conclusion	Audit Committee	Comments
EMA Audit	November 2019					Fieldwork to be undertaken in September 2019 to meet SFC deadline.
Follow-Up Reviews	Each Audit Committee meeting	Audit Register updated 07/02/19	N/A	N/A	19/02/19	

Cover Paper – Timeline for Internal Audit Reviews - AY18/19
Agenda item: A.19.1.07 (ii)



Committee:	Audit Committee			
Subject/Issue:	Timeline for Internal Audit Reviews - AY18/19			
Brief summary of the paper:	Proposed 18/19 timeline for Internal Audit reviews (including proposed timeline for each review)			
Action requested/decision required:	Review and agreement to proposed timeline for AY18/19 Internal Audit reviews			
Status: (please tick ✓)	Reserved:		Non-reserved:	X
Date paper prepared:	13 February 2019			
Date of committee meeting:	19 February 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information.	<p>Following discussions at the November 2018 Audit Committee meeting I have prepared a detailed proposed timeline (to compliment the overview previously provided to the Committee), for the completion of the proposed AY18/19 internal audit reviews on:</p> <ul style="list-style-type: none"> • Payroll; • Quality Assurance & Improvement; • H&S; and • Procurement. <p>The basis of the detailed timeline has been discussed and agreed with Henderson Loggie and the College SLT, this being a turnaround period of 5 working weeks from start to finish.</p> <p>The aim/purpose of the time-line is to avoid draft reports being issued to the Committee.</p>			

Cover Paper – Timeline for Internal Audit Reviews - AY18/19
Agenda item: A.19.1.07 (ii)

	<u>Conclusion</u> I would welcome the Committee's comments and feedback on the above and enclosed proposed timeline.
Equality and diversity implications:	
Resource implications: <i>(If yes, please provide detail)</i>	
Risk implications: <i>(If yes, please provide detail)</i>	Risk of timeliness of internal audit reviews being conducted, and formally reported to the Audit Committee.

Cover Paper – Review of Audit Register
Agenda Item A.19.1.07 (iii)



Committee:	Audit Committee			
Subject/Issue:	Review of Audit Register			
Brief summary of the paper:	Update on current position of the Audit Register			
Action requested/decision required:	Feedback from Audit Committee on current position of the Audit Register.			
Status: (please tick ✓)	Reserved:		Non-reserved:	X
Date paper prepared:	13 February 2019			
Date of committee meeting:	19 February 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information.	<p><u>Introduction</u></p> <p>The Audit Register (“AR”) has been updated to reflect the current position as at 31 January 2019.</p> <p><u>Update</u></p> <p>The following internal audit recommendations which fell due following the November 2018 Audit Committee meeting have been addressed and signed off by Henderson Loggie:</p> <ul style="list-style-type: none"> • Student Recruitment & Retention – R1 (Dec 18) • Student Recruitment & Retention – R3 (Dec 18) • Student Recruitment & Retention – R5 (Nov 18) • Staff Development – R1 (Dec 18) • Risk Management – R2 (Nov 18) <p><u>Conclusions</u></p> <p>All internal audit recommendations have been addressed, and formally signed off by the internal auditors, in-line with the due dates noted in the AR.</p>			

Cover Paper – Review of Audit Register
Agenda Item A.19.1.07 (iii)

	Management are committed to ensuring this trend continues, and are taking pro-active actions to address the current audit recommendations in-line with the proposed timescales for completion.
Equality and diversity implications:	N/A
Resource implications: <i>(If yes, please provide detail)</i>	N/A
Risk implications: <i>(If yes, please provide detail)</i>	Risk of non-compliance with the finding of current (and future) internal audit reviews/actions.



Committee:	Audit			
Subject/Issue:	Policy Schedule Update			
Brief summary of the paper:	A brief update on the policies and procedures due for approval.			
Action requested/decision required:	For noting			
Status: (please tick ✓)	Reserved:		Non-reserved:	✓
Date paper prepared:	14 th February 2019			
Date of committee meeting:	19 th February 2019			
Author:	Derek Duncan			
Link with strategy: Please highlight how the paper links to, or assists with: compliance. partnership services risk management strategic plan/enabler other activity (eg new opportunity) – please provide further information.	Risk Register ID Moray/25: Non-compliance with relevant statutory regulations.			
Equality and diversity implications:	Yes			
Resource implications: <i>(If yes, please provide detail)</i>	The work was previously re-planned and remains in line with revised plan.			
Risk implications: <i>(If yes, please provide detail)</i>	Non-compliance due to deficient policies (notably safety) is a risk to staff, learners and 3 rd parties, as well as possible reputational damage to the College.			

Policy Schedule

A number of new regional policies have started to roll out from the UHI Single Policy Environment Group:

- Learning and Teaching Policy and Strategy
- Student Complaints Policy
- FE Fee Waiver Policy (approved)
- FE Student Support Funds Policy (approved)
- Tertiary Learner Support Policy (approved)
- FE Admissions Policy (approved)
- Safeguarding Policy
- Academic Appeals Policy
- Essential Skills Policy
- Promoting a Positive Learning Environment Policy (replaces disciplinary policy)

The policy schedule has been updated to reflect this.

Work remains on track to approve the remaining policies throughout the remainder of session 2018/19:

		Number of Policies by Scheduled Approval Date							
Committee or SLT	College or Regional?	19/02	05/03	12/03	23/04	14/05	04/06	11/06	Grand Total
Building / F&GP	College						3		3
F & GP	College		7				2		9
LTQ	College			7				4	11
	Regional			2				4	6
SGC	College	1				5			6
SLT	College				1				1
Grand Total		1	7	9	1	5	5	8	36

Cover Paper – Review of Risk Register
Agenda Item A.19.1.09 (i)



Committee:	Audit Committee			
Subject/Issue:	Review of Risk Register			
Brief summary of the paper:	Update on current position of the Risk Register			
Action requested/decision required:	Feedback from Audit Committee on current position of the Audit Register.			
Status: (please tick ✓)	Reserved:		Non-reserved:	X
Date paper prepared:	13 February 2019			
Date of committee meeting:	19 February 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information.	<p><u>Introduction</u></p> <p>The Risk Register (“RR”) has been updated following discussions with the SLT on 13th February 2019.</p> <p><u>Update</u></p> <p>The following additional risk has been added to the RR:</p> <ul style="list-style-type: none"> EIS Industrial Action. <p>Risk scoring across the RR has been reviewed, and updated where necessary.</p> <p>The new UHI Risk Register (via SharePoint) is now live, and I have enclosed a sample of the management information (“MI”) that can now be generated.</p> <p>Any comments/feedback on the above noted matters, and enclosed are welcomed.</p>			
Equality and diversity implications:	N/A			

Cover Paper – Review of Risk Register
Agenda Item A.19.1.09 (i)

Resource implications: <i>(If yes, please provide detail)</i>	N/A
Risk implications: <i>(If yes, please provide detail)</i>	That key risks to the College are not captured and suitable mitigating actions put in-place.



Audit Committee

Risk Item Moray/10: **Technology Not Fit for Purpose**

Derek Duncan, Director IPSS

Introduction

- Why this risk item exists
- Scope of the risk - UHI vs College ICT Provision
- Looking forward and mitigating the risk:
 - Challenges
 - Opportunities
- Summary

Why this Risk Item Exists

- Risk due to significant funding constraints which limits our ability to deliver a modern estate of ICT systems to support:
 1. The core business of Learning and Teaching.
 2. Support services to staff, students, partners, suppliers, government agencies and other 3rd party organisations.
- The gross risk level is **RED** (16) and has existed for several years.
- Mitigation has focussed on:
 - Extending the life of equipment by upgrading instead replacing with new.
 - Targeting funding to areas most in need.
 - Migrating systems to UHI data centres – centralised approach.

Scope: UHI vs College ICT Provision

UHI “Core” Provided:

- WAN Services (SWAN integration)
- ISP Services – the Joint Academic Network – JANET.
- Windows Active Directory Services (UHIAD).
- Video Conference Bridge (currently CISCO)
- Microsoft Campus Licence – desktop and server.
- Development services
- Helpdesk
- Telephony - core system
- Web services (e.g. Terminal 4, the College Internet site at www.moray.uhi.ac.uk)
- Web and application filtering
- Remote desktop services “MyUHI”
- Virtual Learning Environment
- Network security monitoring
- File store and Virtualisation services
- Student Records (SITS)
- Network Identity Management
- Library System
- WIFI

College Provided:

- Local Area Network (LAN)
- Local File Servers (VMWare)
- Backup WAN Link
- End user devices:
 - Desktops, Laptops, Tablets & Mobiles
 - Telephones
- Video Conference Equipment (in VC suites)
- Estates management systems (e.g. BMS).
- Finance System
- HR System
- On line Payment System (e.g. BACS, ePAY).
- Managed Print Service
- Retail services (e.g. Salon Genius, PoS)
- Timetabling and attendance System (CELCAT)
- SMS Text Service (e.g. for weather alerts).
- ID Card System (smart cards)
- Audio-Visual Systems

Looking forward – mitigating the risk: Challenges

- Funding:
 - Less opportunity to use capital funding (and a specific funding restriction for 2018/19).
 - ICT moving from CAPEX to OPEX model (less server rooms, more cloud subscription services).
 - Unexpected funding flows e.g. increased Estates funding after several years of constraint.
 - Colleges Scotland IT Spend Survey completed Feb 2019 - is ICT next for funding?
→ Difficult to predict future funding, but expect continuing constraint.
- Maintaining the ICT 5 year rolling upgrade plan:
 - Expectation that user devices will normally give 5 years of service:
 - Vendor support typically limited to 3 years with higher costs when extending beyond that.
 - Meeting increased demand and changing curriculum need.
- Increased risks using old equipment:
 - Data security and reputation as an education provider.
 - Ability to work smarter and more efficiently e.g. the learner ICT journey from application to graduation.
- Key upgrade due in 2019/20:
 - College servers due for replacement.
 - Mitigated by relocating key servers (VMs) to UHI infrastructure (Inverness).
 - Originally £120K of investment 9 years ago.

Looking forward - mitigating the risk: Opportunities

- Consolidation of more services within UHI hosted infrastructure:
 - Moray has already taken advantage to reduce risk locally.
 - Reduced physical infrastructure on site = lower energy usage and lower risk.
 - SWAN upgrade reduces the risk of single-point WAN failure.
 - More use of APUC partnership approaches for ICT tenders.
 - More investment in secure cloud based services:
 - WAN Improvements support this (lower risk).
 - Subscription based services allow us to optimise licensing.
 - Future: **most services hosted externally in the cloud.**
 - Review student funding models e.g. laptops for students from bursaries (NESCOOL)
- Adopt a new common UHI ICT strategy – don't re-invent the wheel.

Summary

- The risk is still active and should remain.
- Funding will continue to be a constraint for the foreseeable future.
- We need to keep working collaboratively with partners and get the benefits of a single ICT strategy.
- Senior IT managers within the partnership need to consider best use of funding and opportunities to further consolidate ICT systems and services.

FAO – Stephen Reid
Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EB

30 October 2018

Dear Stephen,

Moray College: Arrangements for oversight of management processes and arrangements annually

Your Reference: SR/KM/RJ

Further to your letter of 6 April 2018 regarding the above matters, please see the responses from the Audit Committee of the College set out below. The questions and responses follow the order of your letter:

- 1. How does the Audit Committee, as ‘those charged with governance’ at Moray College (“the College”), exercise oversight of management’s processes in relation to:**
 - a. undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);*

The overall Risk Appetite of the Board and the Risk Management process for the College were recently reviewed and agreed by the Board of Management. This was done in conjunction with a review and update of the College’s Risk Register.

The College’s Risk Register follows the template used across the UHI partnership. It is reviewed regularly by management, the Audit Committee and, as appropriate, the Finance & General Purposes Committee (“F&GP”). The Risk Register includes the UHI cross-college risks, which all UHI Academic Partners are required to review, as well as any Moray-specific risks identified for inclusion. UHI Executive Office also monitors risks and mitigating actions and may comment on the Risk Register. In addition to the above the Audit Committee will undertake ‘deep dives’ into particular risk areas over the course of its work.

The Risk Register assists the identification of candidate areas for review by Internal Audit. The College may additionally participate in any UHI-wide audits conducted by the Executive Office.

Areas of financial risk are included in the Risk Register review and several finance-relate risks have been identified as part of the review process. Financial controls were audited relatively recently and actions identified.

Expected behaviours and processes and other relevant matters are set out in College policies. The College has policies relating to financial controls and fraud, and these are in the process of being reviewed and updated where necessary as part of the overall policy review process. The Committee is aware these policies are overdue for review and is seeking for that to be rectified.

The College's policy register contains the list of all policies; the committee responsible for review of and agreement to each policy; the senior member of the College management team responsible for the review and updating of each policy; and the date of last review and next review. There has been work over recent months to update the register of policies to ensure it is complete and up-to-date. The Audit Committee will monitor, by means of a status report at each meeting, the overall status of all College policies, in terms of whether policies have been reviewed or are overdue for review by the relevant Committee of the Board.

Internal Audit may review any relevant policies as part of an internal audit or recommend a new policy area, as happened recently in relation to GDPR.

The above sets out the framework.

- b. identifying and responding to risks of fraud in the College, including any specific risks of fraud which management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;*

The Committee places reliance on the management processes which incorporate a number of checks to ensure no one individual is able to process financial transactions or payroll in isolation, along with the work undertaken by internal audit in reviewing how the processes operate in practice in line with the annual internal audit plan.

The College's Financial Procedures Policy recognises the risks of fraud. This policy is due for review and agreement by the F&GP Committee by 31 May 2019. It includes a strong segregation of duties to address the risk of fraudulent activity. It should be noted that the College received positive comments from its bankers regarding the processes in place relating to payment authorisation (provided as audit evidence of the working of the processes to the College's internal auditors).

The College has a Fraud Policy and Response Plan, and while this has to be updated to reflect the new executive team structure, it sets out the approach to be taken in the event of suspected fraudulent activities and behaviours.

The College also has a Whistle-Blower Policy, which sits with the Director of Human Resources and the Staff Governance Committee. The alignment of these two policies will be considered further as part of the policy review programme.

The Committee will review in the coming year the means by which any use made of the whistle-blower mechanism is reported, as well as use of fraud reporting and similar.

With regard to internal audit, while the strategic plan covers a three-year period, in practice that is reviewed and amended over the course of the period as the perception of risk changes, or due to other changes, such as the implementation of GDPR or the audit of the revised risk management process.

- c. communicating to employees its view on business practice and ethical behaviour, for example by updating, communicating and monitoring against the College's code of conduct;*

Standards of business practice and communication to employees will primarily be dealt with by the recently established Staff Governance Committee.

The Terms of Reference of the Staff Governance Committee includes the area of Staff Governance Standards. The Committee is currently working towards developing a set of descriptors to illustrate both positive and negative personal behaviours in the context of the core values adopted by the College and UHI. The means of communication of these behaviours to employees will also be addressed. This work is planned to be completed by June 2019. The progress of the work, including communications, will be reported by the Committee to the Board.

The Audit Committee should as a consequence, in the coming year, reflect on how it will exercise oversight on the communication of such standards and subsequent monitoring.

d. encouraging employees to report their concerns about fraud;

The College's Whistle-Blower policy sets out the actions an employee should take with regard to any concerns about fraud, and how these concerns should be directed. This policy (along with others) is brought to the attention of new staff as part of the induction process, and guidance is provided on where to find the policy.

The Whistle-Blower policy is currently subject to the overall policy review process, described at section (a) above, to ensure that it is up-to-date and in-line with UHI guidelines. As noted at section (b) above, the alignment with the Fraud Policy and Response Plan will be reviewed as part of that.

In addition to the above measures, Board Surgeries are held in the morning prior to each meeting of the Board. Any member of staff can request a confidential appointment with a member of the Board and raise any concerns in confidence.

e. and communicating to you the processes for identifying and responding to fraud or error?

The policy which addresses this matter is the Fraud Policy and Response Plan, one of the policies which has to be agreed by the Audit Committee. The Committee is aware this policy is overdue for review and agreement, and is seeking to rectify that situation.

2. How does the Audit Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

The approach to identifying and responding to the risk of fraud is covered in section 1 above.

Any actions identified through the internal audit process are formally closed by the auditor based on the evidence provided and not by College staff. The process for closing audit actions has been revised with the aim of clearing actions in a more timely way. The Committee recognises that timely closure of audit actions is an outstanding matter and is seeking to achieve closure of all overdue actions.

The annual report of the Internal Auditors provides the Audit Committee with assurances on the matters covered over the year. There was a closed meeting with the internal and external auditors in advance of the October meeting of the Audit Committee, allowing Committee members to have a conversation with the auditors without the executive staff of the College being present, giving Committee members the opportunity to probe any matters they may wish to raise.

As part of its duties, the F&GP undertakes detailed scrutiny of the accounts on a regular basis and while this is not undertaken as an audit of controls, the regular scrutiny may serve to identify any underlying issues which may emerge that could point to potential breaches. The F&GP reviews and scrutinises a summary of the management accounts on a quarterly basis, with particular attention given to the performance against budget and the previous year, looking at cost and revenue variances as well as trends. Members of that Committee will raise questions and discuss any issues arising, discussions are recorded in the minutes, and these form part of the agenda and papers at each meeting of the Board.

As noted at section 1 above, the work on appropriate behaviours and communication of that will be reported to the Board in line with the work of the Staff Governance Committee. The Audit Committee will reflect further on how use of the whistle-blower and other relevant policies is reported, as well as how it will exercise oversight of communication and monitoring of

behaviours. Any breaches of the General Data Protection Regulation will be reported to the Audit Committee.

3. Is the Audit Committee aware of any:

a. breaches of, or deficiencies in, internal control;

Yes. A number of recommendations were made by the internal auditors, following each audit. All recommendations and their associated status are captured in the Audit Register, which is reviewed at each meeting of the Audit Committee.

The majority of the outstanding and overdue audit recommendations have been addressed over the past 12 months, and the College is in the process of having these formally signed off by the internal auditor. At time of writing, there are five actions which are overdue and outstanding for submission to the internal auditor. The audit evidence in support of the completion of these actions is planned to be provided imminently. Going forward management are acutely aware of the requirement to avoid such a situation arising again, and the Committee will continue to have oversight of this matter at each of its meetings.

b. actual, suspected or alleged frauds during 2017/18.

No such matters or grounds for suspicion or allegations have been brought to the attention of the Committee by management, staff or students.

4. Is the Audit Committee aware any organisational or management pressure to meet financial or operating targets?

The College has been and is facing financial and operational challenges, as is the sector generally. The Committee is aware of current status in meeting the College's financial and operating targets and of the management actions to address matters arising, through the regular reports provided to the Board.

The Board approved a three-year Financial Recovery Plan ("FRP") in February 2017, following the outcome of the year ending 31 July 2015 financial performance.

The College exceeded FRP expectations in year one of the plan. While year two of the FRP (academic year 17/18) is still subject to external audit, the College's management accounts indicate that the 2nd year of the plan, namely a deficit of £240k before pension adjustments, shall also be achieved or exceeded.

In light of these challenges, the College must continue to focus on financial sustainability, and has prepared for Board approval a new, four-year financial plan for the next period. Financial performance matters have taken up considerable management and Board time in the recent years.

Significant measures have been required from the management team to achieve the aims of the FRP, namely improvements in non-funded income and cost savings in staff and non-staff costs, all of which have led to pressure to meet financial and operating targets. There are strong financial controls on expenditure (as described above), and regular budget and performance meetings are conducted with budget holders. There is pressure on the Finance Director to increase commercial income, and a Commercial Activity Group has been formed with the remit of developing this area of funding for the College. The Finance Director in turn provides quarterly updates to F&GP, and through that, to the Board.

The Audit Committee is aware of the pressure to meet student number targets. The 17/18 academic year saw a decline in student numbers in both higher and further education. Changes in marketing approaches have been introduced to address the matter and to respond

to the demographic changes in the local area. Updates on student numbers are now reported to the Board on a more frequent basis, and updates on marketing initiatives to address the shortfall have been provided to the Board. The internal auditors are currently in the process of finalising the annual audit of student numbers, the outcome of which is expected to be reported to the November meeting of the Audit Committee.

5. How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2017/18?

Specific actions undertaken by the Committee have depended on the perceived risk, in line with the risk management process. Thus, the Audit Committee requested an internal audit on matters associated with the implementation in May 2018 of the new General Data Protection Regulation and the College's preparations for meeting the requirements. The recommendations arising are set out in the Audit Register. The internal audit of the New Executive Team Structure focused on ensuring that all previous areas covered by the then management team continued to be covered under the new arrangements, rather than an audit of the legal aspects of the exercise in a situation where there was good expertise and close collaboration with various other bodies.

As part of the College's process to support assurance in respect of compliance with the Code of Good Governance, an exercise is underway to gather relevant supporting evidence in relation to all the elements of this Code, using the template developed by the Executive Office for all UHI partners. The matter was discussed at the October meeting of the Audit Committee as part of the Committee's process for seeking assurance, and will also be tabled at the November meeting of the Committee. The Committee is minded to conduct an internal audit of compliance in respect of this Code in 2018-19.

In early June 2018, following a procurement exercise, the College appointed a Health and Safety Consultant to review the College's health and safety policies and procedures and (amongst other matters) conduct a gap analysis. Work on the actions arising is underway. Health and Safety matters were also discussed as part of the Risk Register review at the October meeting of the Audit Committee. Progress in resolving actions to address the identified areas will be monitored by the Board. The details will also be reviewed and monitored at the Staff Governance Committee, the minutes of which are tabled at all Board meetings.

All Audit Committee papers are circulated to UHI's Head of Internal Audit, who monitors these matters for the UHI Partnership, and who provides feedback and comments where relevant. The Convenor of the Audit Committee attends the joint meeting of UHI Audit Committee Chairs held twice per annum. Matters of wider concern may be raised at this meeting, as well as matters of alignment.

In the period to date, no instances of such matters have been reported to the Committee, or identified to the Committee by management, apart from any relevant observations contained in this response.

6. Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?

Any such instances are raised with F&GP as and when the College becomes aware, and minuted accordingly. An appropriate provision would also be made or contingent liability noted.

Any such instances are also brought to the attention of the College's external auditors, and form part of the annual audit of the financial statements.

The Committee is not aware of any such matter that affect the College's financial statements and no such instances have been noted at the F&GP or brought to the attention of the College's external auditors.

7. How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

Over the course of the academic year, the Board sees the periodic financial summary reports described above, as well as the minutes of the discussion at the preceding meeting of the F&GP. The information provided allows the Board to see the impact against the Financial Recovery Plan. A new four year forward plan was presented to the Board and further work is being undertaken on that, prior to it being presented again to the Board for approval. All Colleges are considering the impact of the outcomes of recent pay awards following national bargaining and the consequences for funding.

The Board's strategic plan objectives have been published on the College's website and attainment will be monitored by the Board. The aims of the strategic plan include a forward-looking curriculum so that College continues to meet the needs of students and employers.

Committee members are therefore aware of status and trends, as well as any mitigating actions planned.

In addition to the above the Audit Committee meets jointly with F&GP once per annum, to review the annual statutory accounts prior to their being presented to the Board for formal approval. The conduct of the External Audit is an agenda item at the Audit Committee meetings prior to the meeting to review the final statements, and the external auditors may use these opportunities to raise any concerns identified in the conduct of the audit.

8. How does the Audit Committee satisfy itself that the College has arrangements to ensure compliance with the Scottish Funding Council's ("SFC") Accounts Direction and Financial Memorandum?

SFC guidance is issued to all Colleges in respect of the preparation of the annual financial statements, and that sets out how Colleges are required to prepare their annual accounts and matters to be reported upon. The Financial Director of the College has the requisite qualifications to prepare the financial statements in line with the requirements of the Direction.

The process of providing assurance to the Committee in respect of the Code of Good Governance is described above. This approach will also provide a framework for any audit of compliance with the Code, and that in turn will also provide assurance to the Committee.

9. How does the Audit Committee satisfy itself that the College has arrangements to ensure compliance with its requirements as an independent charity as set out by OSCR?

The College submits an annual return to OSCR, namely submission of the annual statutory accounts. Previously and in response to a question, confirmation has been provided to the Convenor of the Audit Committee that the annual return has been made in a timely way.

For the future, the Committee has asked that the annual OSCR return will be an agenda item at a relevant meeting of the Committee, to allow the return to be noted formally at the meeting of the Committee, in the first instance at its May 2019 meeting

The requirements of OSCR on the College as an independent charity are similar in nature to many of the requirements of the Code of Good Governance. Nonetheless, there is merit in reviewing these further at a future meeting of the Committee in the first part of 2019 and that will be planned accordingly.

10. How does the Audit Committee satisfy itself that the College has arrangements to monitor and maintain the regularity of income and expenditure?

As described above, regular financial updates are provided to the F&GP and these are recorded in the minutes and papers of the Committee. Updates include quarterly management accounts showing revenues and costs, variances, updates in respect of the Financial Recovery Plan and forecasts, the cash flow position and anticipated outcome. The minutes of the F&GP are provided to the subsequent Board meeting, along with a summary of the management accounts. The presentation of these matters is undertaken by the Finance Director and the Chair of the F&GP. The associated discussions and questions at both the Committee and the Board should identify any issues and indeed additional information and explanation can be provided between the meeting of the Committee and the Board.

Also, as described, arrangements are in place to monitor and report to the Board on student numbers as well as to report on marketing initiatives designed to ensure targets are met, student numbers being the key driver of College income. The Finance Director also reports on commercial, non-funded activities.

The responses set out above have been reviewed and discussed with the members of the Audit Committee, and they reflect the Committee's views and understanding of the matters raised in response to your letter of 6 April 2018.

Yours sincerely,

Dr Jessie McLeman
Chair of Audit Committee – Moray College UHI

Cover Paper – Overview of OSCR Requirements/Governance
Agenda Item A.19.1.11



Committee:	Audit Committee			
Subject/Issue:	Overview of OSCR Requirements/Governance			
Brief summary of the paper:				
Action requested/decision required:	Feedback/comments from the Audit Committee the OSCR Guidance			
Status: (please tick ✓)	Reserved:		Non-reserved:	X
Date paper prepared:	13 February 2019			
Date of committee meeting:	19 February 2019			
Author:	Director of Finance			
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (e.g. new opportunity) – please provide further information.	<p><u>Introduction</u></p> <p>Enclosed for the Committee’s attention is the latest Guidance update from OSCR (updated October 2015) in respect of the regulations for Charities – which primarily relates to the preparation of accounts for Charities.</p> <p><u>OSCR Requirements</u></p> <p>From the enclosed document sections 1 (Introduction) and 7 (Reporting to OSCR) refer to the key requirements which apply to the College, namely:</p> <ul style="list-style-type: none"> • Submission of an Annual Return; and • Filing of Statutory Accounts. <p>Both of the above require to be submitted to OSCR within 9 months of the College’s year-end (i.e. 30 April).</p> <p><u>Other Requirements</u></p> <p>The key regulations for the College in respect of the preparation of annual accounts are:</p> <ul style="list-style-type: none"> • FReM –Financial Reporting Manual (government legislation); and 			

Cover Paper – Overview of OSCR Requirements/Governance
Agenda Item A.19.1.11

	<ul style="list-style-type: none"> SFC Accounts Guidance & Direction (updated and issued annually). <p><u>Governance</u></p> <p>While OSCR will provide updates/bulletins on governance matters, the key requirement for the College is the 2016 Code of Good Governance for Scottish Colleges</p>
Equality and diversity implications:	N/A
Resource implications: <i>(If yes, please provide detail)</i>	N/A
Risk implications: <i>(If yes, please provide detail)</i>	Risks of non-compliance with OSCR requirements by the College.

Scottish Charity Accounts

An Updated Guide to the 2006 Regulations



**OSCR is grateful to the following people
for their support and assistance
in updating this guidance:**

Michael Brougham and Elaine Parr

This updated guidance was published in August 2011

Scottish Charity Accounts – An updated guide to the 2006 Regulations

We have written this guidance to help Scottish charities prepare their accounts and ensure that they are properly scrutinised, as required by law.

It is aimed at **all charity trustees** and anyone preparing accounts for a Scottish charity.

The type of accounts that your charity should prepare and the kind of external scrutiny that is required depends on several factors, which we explain in this guidance.

Please read this guidance **before** you begin to prepare your charity's accounts in order to be clear about what your charity needs to do.

How to use this guidance

The guidance is split into three parts.

- » **Part 1: The Overview**
- » **Part 2: Receipts and Payments Accounts**
- » **Part 3: Fully Accrued Accounts**

You need **only** read the parts that apply to your charity depending on the type of accounts you have to prepare.

All charities should read Part 1 that will explain which of the subsequent Parts (2 or 3) applies to your charity.

Content of Parts 1, 2 and 3

Part 1: The Overview

Part 1 gives an overview of the law regarding charities' accounts and essential information relevant to all charities. This includes:

- » The requirements for accounting records
- » How to set your financial year
- » Appointing an external scrutineer and their rights and duties
- » Reporting to OSCR

Sources of information and support for all charities are provided at section 11 and a glossary that explains any technical terms used in the guidance can be found at section 12.

Part 1 also contains information and flow charts that allow you to determine which type of accounts should be prepared (section 2) and which type of external scrutiny should be used (section 3). Once you have determined which form of accounts is required, you will know whether Part 2 or 3 is relevant.

Part 2: Receipts and Payments Accounts

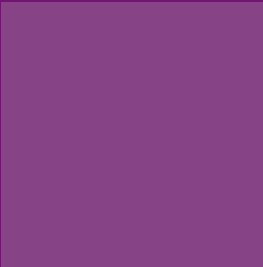
Part 2 provides detailed guidance on preparing compliant receipts and payments accounts and covers the relevant external scrutiny options. It includes a simple example set of accounts including an independent examiner's report.

Part 3: Fully Accrued Accounts

Part 3 outlines the requirements for accounts prepared on an accruals basis, covers the relevant external scrutiny options and directs readers to where examples of accrued accounts can be found. It includes an example of an independent examiner's report. This Part will be relevant for all charitable companies as well as certain non-company charities that fulfil certain criteria.

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Part 1: The Overview



Part 1: The Overview

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Section 1 Introduction

1.1 Introduction

Anyone who has given time or money to a charity will have an interest in seeing its resources used properly. A charity's accounts are a means of communicating considerable information about the charity in a relatively concise way. A well prepared and informative set of accounts will give members, funders, donors and anyone else with an interest in the charity a good picture of the activities of the charity and how well it is using its resources.

The purpose of this updated publication is to provide detailed guidance on the accounts provisions in the law and regulations covering charities, including the changes introduced by two recent amendments to regulations. The format and independent scrutiny of charity accounts is regulated by the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act), and the Charities Accounts (Scotland) Regulations 2006 (the Regulations). The 2006 Accounts Regulations have been amended by the Charities Accounts (Scotland) Amendment Regulations 2007 and the Charities Accounts (Scotland) Amendment Regulations 2010.

Copies of the 2005 Act and the Regulations and information on how to obtain printed versions are available on the OSCR website at www.oscr.org.uk

1.2 Who is this guidance for?

This guidance has been produced by the Office of the Scottish Charity Regulator (OSCR) and is principally for the attention of the people who prepare and scrutinise charity accounts:

- » charity treasurers
- » charity trustees (i.e. the group of people who have management and control of the charity and who may be called committee members, directors or trustees, etc.)
- » charity staff, e.g. chief executives and finance officers
- » independent examiners
- » auditors
- » professional advisors
- » support agency staff.

But it should also be of interest to:

- » funding bodies and financial supporters
- » umbrella bodies and intermediary organisations providing guidance and training to their members
- » others with an interest in charity accounts such as beneficiaries and members.

While the 2005 Act and the Regulations apply to all charities, this guidance has been written principally with smaller charities in mind as they make up the vast majority of Scottish charities and may not have access to the same level of professional advice and support as larger charities.

Some charities will also have to prepare accounts in line with other legislation and regulations, for example charitable companies, registered social landlords or further and higher education institutions. For these organisations this guidance will need to be read alongside the other legislation or regulations that are specific to their organisation.

1.3 Scope of the Regulations

Section 44 of the 2005 Act and the original Regulations came into force for accounting periods starting on or after 1 April 2006. Some minor changes were introduced by the Charities Accounts (Scotland) Amendment Regulations 2007 and more recently, the Charities Accounts (Scotland) Amendment Regulations 2010 which came into force on 1 April 2011. The most significant changes made by the 2010 Amendment Regulations only affect financial years starting on or after 1 April 2011.

Charitable companies will need to prepare accounts that comply with the Regulations as well as the requirements of company law. Some changes have been introduced by the Companies Act 2006 that are relevant to Scottish charitable companies. For accounting periods commencing on or after 1 April 2008, charitable companies will no longer be exempt from the audit requirements applicable to all companies. They can qualify for audit exemption in the same way as any other company. Charitable companies will also be subject to the provisions of the Regulations in respect of external scrutiny of the accounts.

Section 2 Preparing accounts

2.1 The types of accounts that can be prepared

Charities must prepare accounts in one of two ways depending on several factors. These are briefly:

» receipts and payments

Receipts and payments accounts are a simple form of accounting that consist of a summary of all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances.

» fully accrued

Fully accrued accounts allocate the costs or income of a particular activity according to when the liability is incurred or when there is entitlement or certainty about income. This is not necessarily the date on which money is received or paid out.

Fully accrued accounts must be prepared in accordance with the methods and principles of the Accounting and Reporting by Charities: Statement of Recommended Practice (the Charities SORP).

2.2 Which type of accounts should we prepare?

Normally a charity's gross income for a given financial year will determine the type of accounts to be prepared for that particular year. However, if:

- » the charity's constitution says it should prepare fully accrued accounts, or
- » the charity trustees have taken a decision to prepare fully accrued accounts, or

- » any enactment says that the organisation should prepare fully accrued accounts (e.g. the provisions of the Companies Act 2006 mean that charitable companies must prepare fully accrued accounts)

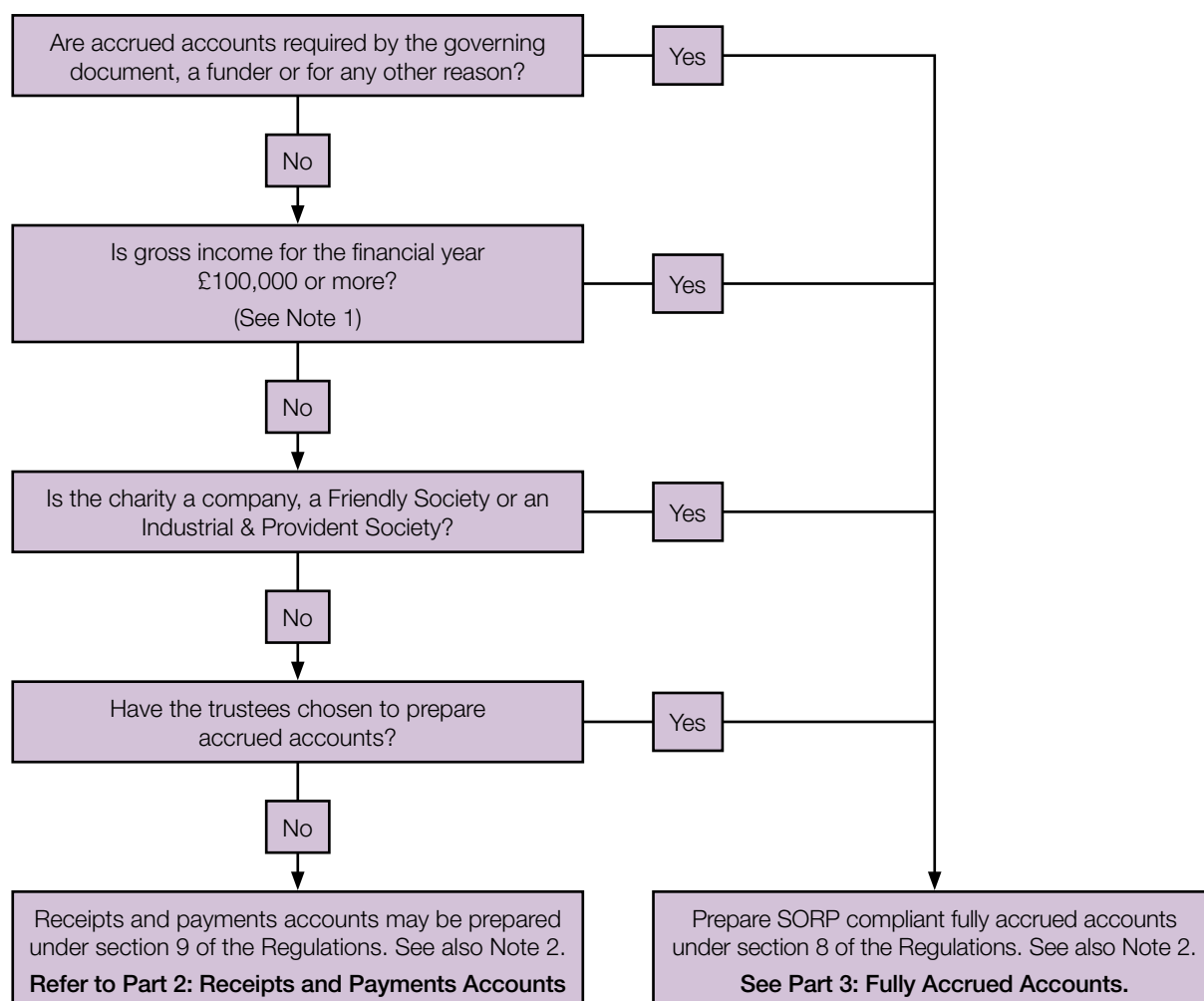
then fully accrued accounts must be prepared even if the charity's gross income would otherwise allow accounts to be produced on the receipts and payments basis.

Fully accrued accounts must follow the Charities SORP and, if independently examined, be examined by a qualified independent examiner (see section 3.5 in Part 3: Fully Accrued Accounts). Charity trustees should fully consider the implications of deciding to prepare fully accrued accounts if they are not otherwise required.

Apart from the statutory requirement, any constitutional or third party reference to accounts providing a true and fair view of the financial affairs of the charity would require the preparation of fully accrued accounts.

See Figure 1 overleaf called 'Preparing Accounts' to determine the type of accounts that must be prepared. The changes introduced by the 2010 Amendment Regulations mean that the rules are different depending on the period for which accounts are being prepared. This means that the person preparing the accounts must be clear about the financial year for which accounts are being prepared in order to understand the correct rules.

Once the charity has established the type of accounts required for the financial period they can read, Parts 2 and 3 of this guidance, receipts and payments accounts and fully accrued accounts, for more detailed information on the requirements specific to the type of accounts being prepared.

Figure 1 – Preparing Accounts**Notes:**

1. £250,000 for financial years commencing on or after 1 April 2011.
2. Charities should also be aware that, depending on their particular circumstances, the accounts they prepare may also need to comply with other legislative requirements (e.g. the Companies Act if they are a charitable company).

Section 3 The external scrutiny of charity accounts

3.1 Background

Accounts must be independently scrutinised. The aim of external scrutiny is to give readers a degree of confidence in the words and figures presented in the accounts and to confirm that they have been prepared in accordance with the Regulations.

There are two main types of external scrutiny to which charities' accounts are subject:

- » independent examination
- » audit.

Independent examination

An independent examination is a form of external scrutiny of the accounts which is less rigorous than an audit and offers an assurance that nothing has been found that needs to be brought to the attention of readers of the accounts rather than the positive expression of a professional opinion based on an audit.

Historically, the term 'audit' has been used loosely to describe any independent scrutiny of accounts. However, under the Regulations if the term 'audit' is used in a charity's constitution or governing document the charity must have its accounts audited by a registered auditor or a person appointed by the Accounts Commission for Scotland or by the Auditor General for Scotland (responsible principally for public bodies).

Audit

An audit provides reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In undertaking an audit, a registered auditor must comply with the UK Auditing Practices Board's ethical standards for auditors and International Standards on Auditing (UK and Ireland).

Many charity constitutions or governing documents use the term 'audit' when describing the type of external scrutiny to which the accounts should be subject. The charity trustees of charities not required to have an audit under the Regulations or any enactment may consider that the benefits of having an audit are outweighed by the costs. Charity trustees of such charities may wish to review their constitution and:

- » retain the term audit because they decide that the accounts should continue to be audited, or
- » amend the constitution (where they have the power to do so) to reflect the charity trustees' or members' intentions regarding external scrutiny.

Any change to the constitution must be carried out in accordance with the terms of the constitution and with consideration of any professional advice received. Notification of the change to the constitution must also be sent to OSCR within three months of the change being made.

In addition, many funding bodies require the charities they fund to have their accounts 'audited'. Charities whose gross income means they could carry out an independent examination under the Regulations may wish to discuss with their funding bodies what is meant by the term 'audit', and whether or not external scrutiny by an independent examiner as required under the Regulations would be sufficient.

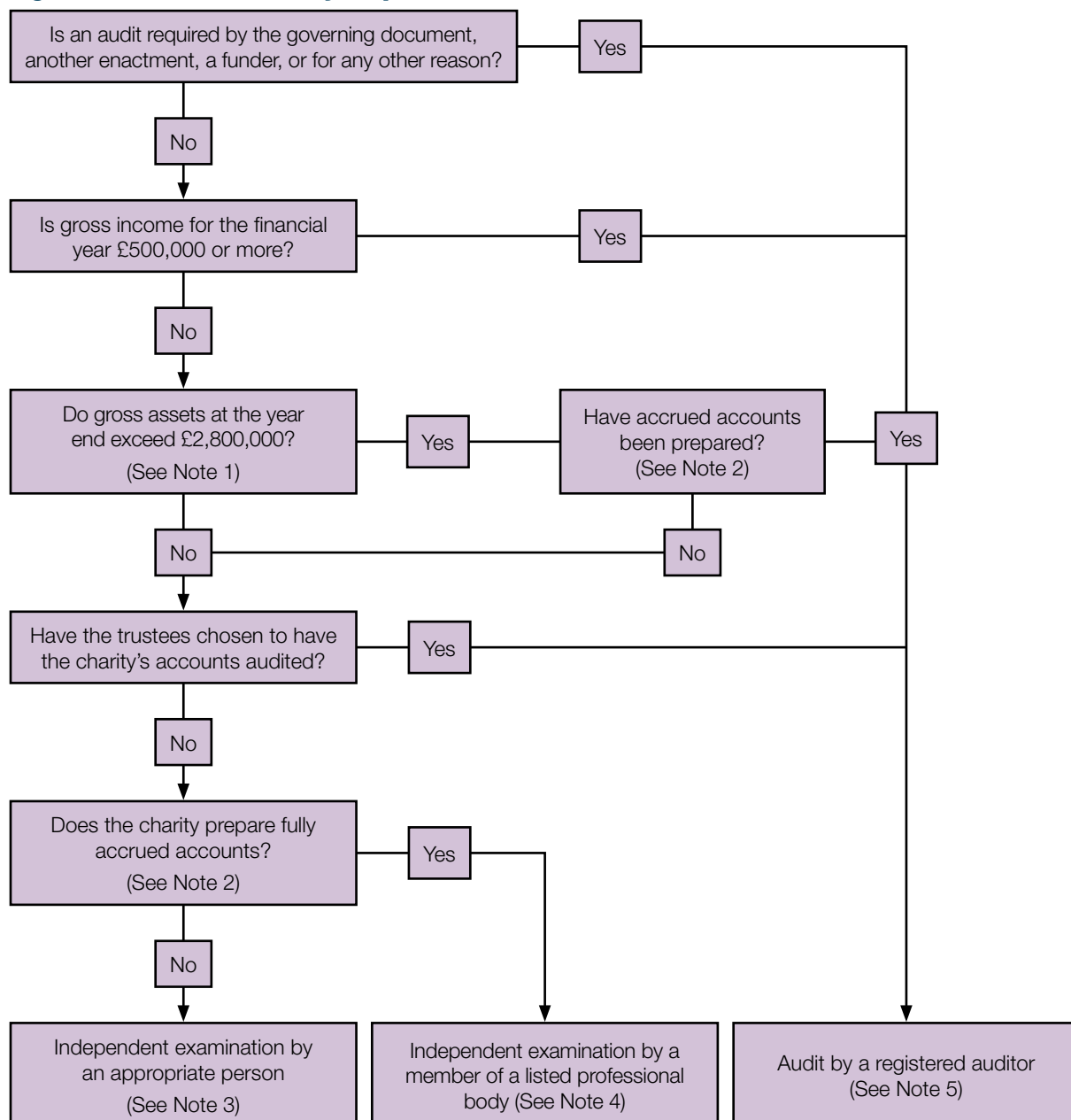
Further information on the changes that require OSCR's consent, or need to be notified to OSCR, can be found on OSCR's website page 'Making Changes to your Charity' available at www.oscr.org.uk

3.2 External scrutiny and type of accounts prepared

The type of external scrutiny appropriate for a particular charity will be determined by:

- » any reference to audit in the constitution or governing document of the charity
- » whether the charity is a company
- » the charity's gross income and the value of assets held (before deduction of liabilities) for the accounting period
- » a decision of the charity trustees to carry out an audit.

The answers to the questions in Figure 2 overleaf will determine the type of external scrutiny under charity law to which accounts should be subject. The charity should then read Part 2: Receipts and Payments Accounts or Part 3: Fully Accrued Accounts for more detailed guidance on external scrutiny appropriate to the type of accounts prepared.

Figure 2 – External Scrutiny Requirements**Notes:**

1. £3,260,000 for financial years commencing on or after 1 April 2011.
2. Company charities must always prepare fully accrued accounts.
3. Independent examination by someone who the trustees reasonably believe to have the requisite ability and practical experience to carry out a competent examination of the accounts. Refer to Part 2: Receipts and Payments Accounts.
4. Refer to Part 3: Fully Accrued Accounts.
5. Audit under the 2005 Act. Larger company charities may also require audit under the Companies Act 2006.

Section 4 Appointment, rights and duties of the external scrutineer

4.1 Appointing someone to carry out the external scrutiny

In appointing an independent examiner or auditor, charity trustees should consider the degree of complexity of the charity's accounts and structure. The more complex the organisation and its accounts, the higher the level of qualification or experience required of the independent examiner or auditor.

In deciding who to appoint as an independent examiner or auditor, charity trustees should consider the type of accounts the charity prepares and ensure the independent examiner or auditor:

- » is independent of the management and administration of the charity
- » is eligible under the Regulations to act as an independent examiner or auditor
- » is eligible under their professional body's rules and regulations to act as an independent examiner or auditor
- » has experience of accounts to the same level and degree of complexity.

The independent examiner or auditor should have no connection with the charity trustees that might inhibit their ability to carry out an impartial examination. Whether a connection exists will depend on the circumstances of a particular charity, but the following people will normally be considered to have a connection:

- » the charity trustees or anyone else who is closely involved in the administration of the charity
- » a major donor or major beneficiary of the charity
- » a close relative, spouse, partner, business partner or employee of any of the people mentioned above.

4.2 Access to information for independent examiners and auditors

Under section 13 of the Regulations, independent examiners and auditors have the right of access to any books, documents or other records that relate to the charity which they consider necessary to carry out their work. They may also require information from past or present charity trustees or employees of the charity.

4.3 Duty of independent examiners and auditors to report matters to OSCR

Under the 2005 Act, independent examiners and auditors **must** report to OSCR any matter they become aware of regarding a charity, or any connected organisation, which they believe is likely to be of material significance to OSCR in carrying out its functions. If they believe the matter may not be of material significance but may still be relevant to OSCR carrying out its functions, they **may** still report the matter.

Examples of what will be of material significance to OSCR carrying out its functions and what will be relevant are given below. They are provided for illustrative purposes only to assist independent examiners and auditors. They should not be seen as exhaustive.

Areas of material significance to OSCR will be matters central to the integrity of the charity and will include:

- » dishonesty or misuse of funds by a charity trustee or senior management such as:
 - evidence of false accounting, theft or misappropriation of assets by a charity trustee or the charity's senior management
 - evidence of any significant theft or misappropriation by any charity employee (other than senior management), volunteer, agent or third party and the matter has not been reported to the police
 - evidence of significant misapplication of charitable funds
 - evidence that a charity trustee is disqualified from acting as such
 - evidence that a charity trustee, employee, or agent knowingly or recklessly provided false or misleading information to OSCR
 - evidence giving rise to doubts as to the honesty or integrity of any charity trustee.
- » a serious breach of a legislative requirement such as:
 - a serious breach of the 2005 Act particularly (but not exclusively) with regard to sections 44, 66 and 67 relating to accounts, trustee duties and trustee remuneration
 - activities not in pursuit of charitable purposes
 - auditor or independent examiner not being provided with the records or explanations they require

- a significant discrepancy between the annual or monitoring return submitted to OSCR and the accounts which is not immediately corrected.

Matters that may not be of material significance but may still be relevant to OSCR carrying out its functions are likely to indicate significant risks to charitable funds and their proper application, and would include:

- » serious deficiencies in the management and control of charitable funds such as:
 - evidence that the charity trustees have failed to exercise proper control of the charity's assets, affairs and activities
 - evidence of recklessness by the charity trustees giving rise to a significant risk to charitable funds
 - uncertainty as to who are the charity trustees.
- » a significant breach of a legislative requirement such as:
 - a significant breach of law or regulation, not specific to charity legislation, that could prevent the charity from undertaking a significant part of its activities
 - a significant breach of section 81 of the 2005 Act or the Charities and Benevolent Fundraising (Scotland) Regulations 2009.
- » dishonesty or misuse of funds that does not involve a charity trustee or senior management such as:
 - evidence of any significant theft or misappropriation by any charity employee (other than senior management), volunteer, agent or third party and the matter has been reported to the police

- knowingly making significantly inaccurate or misleading claims in relation to the charity or its activities in publicity or fundraising materials.

In addition, auditors (but not independent examiners) must send to OSCR a copy of any report they have sent to the charity trustees containing circumstances that they feel should be brought to the attention of the charity trustees connected with the auditor ceasing to hold that office.

Section 5 Accounting records

Section 44 of the 2005 Act requires charities to keep proper accounting records. Section 4 of the Regulations specifies that the accounting records must be sufficiently detailed to show and explain the transactions of the charity. In particular they must be able to:

- » show, day by day, the money received and spent by the charity
- » record the assets and liabilities of the charity
- » disclose the financial position of the charity at any time
- » produce a statement of account in line with the Regulations.

Section 44 of the 2005 Act also specifies that charities must keep accounting records for **at least six years** from the end of the financial year in which they are made. However, charity trustees should be aware that the length of time they need to keep records may also be governed by other legislation or by agreements with funding bodies.

The records kept by charities will vary depending on circumstances and may be manual or computerised. Examples of records that a charity should keep are:

- » a cash book recording day to day income and expenditure
- » bank statements which are reconciled regularly (e.g. monthly) with cash book records
- » vouchers, invoices, receipts and other supporting evidence of income and expenditure.

Examples of other records that a charity may keep are:

- » a general ledger with supporting purchase and sales ledgers, recording day to day income and expenditure but also any sales or purchases that have not yet been paid
- » computer spreadsheets
- » commercial accounting software with supporting data.

Section 6 The charity's financial year

6.1 Establishing the financial year

The date of the financial year end, or accounting reference date, is an important part of the information about a charity that is contained in the Scottish Charity Register ('the Register'). It is the date to which accounts are prepared by the charity.

Charities entered in the Register after 1 April 2006 that are not companies or charities established in countries other than Scotland can decide their accounting reference date. This date must not be less than six months or more than 18 months after the date the charity was entered in the Register.

Charitable companies entered in the Register and incorporated on or after 1 April 2006 can choose an accounting reference date not less than six months or more than 18 months after the date the charity was incorporated.

Charities established on or after 1 April 2006 in countries other than Scotland and entered in the Register on or after 1 April 2006 can choose an accounting reference date not less than six months or more than 18 months after the date the charity was established.

Charitable companies must make sure that the establishment of their financial year also complies with the Companies Act.

6.2 Changing the financial year

The charity trustees may specify a new accounting reference date for either:

- » the current financial year, or
- » the financial year immediately before the current financial year

as long as the financial year is no longer than 18 months and a charity does not have three or more financial years exceeding 12 months in any five-year period.

A notice of the change must be given to OSCR within three months of the date of the decision to change the accounting reference date.

Charitable companies must make sure that any change to their financial year complies with the Companies Act and that Companies House is notified of any change.

Further information on the changes that need to be notified to OSCR can be found in the 'Making Changes to Your Charity' page available on OSCR's website at www.oscr.org.uk

6.3 Removal from the Scottish Charity Register

Where a charity is removed from the Register, its financial year will begin on the day after its previous full financial year end and end on the date of its removal from the Register.

Section 7 Reporting to OSCR

7.1 Reporting to OSCR

To keep the Register up to date and allow OSCR to monitor and regulate charities operating in Scotland, OSCR requires every charity on the Register to provide it with certain information. It does this by issuing annual and monitoring returns. Sections 22, 28 and 29 of the 2005 Act give OSCR the powers to make inquiries about and obtain information from charities.

7.2 Annual and Monitoring Returns

Every year, charities will be issued with an Annual Return. This will already have details of the Register entry information including the accounting reference date of the charity. Within the Annual Return charities need to state their annual gross income.

Charities which have declared a gross income of £25,000 or above in the preceding year will also receive a Supplementary Monitoring Return. This will require additional information about other areas which may include:

- » annual accounts
- » fundraising activities
- » transactions with trustees
- » dealings with connected trading companies.

The Monitoring Return for charities with an income of £100,000 or above will ask for slightly more information. This threshold will increase to £250,000 for the Monitoring Return sent to a charity for an accounting period starting on or after 1 April 2011.

Every charity must file the Annual Return, supplementary Monitoring Return (if appropriate) and annual accounts with OSCR within **nine months** of the charity's financial year end. **The accounts must be submitted at the same time as the Annual Return.**

The Annual Return, statement of balances or balance sheet, trustees' annual report and external scrutiny report submitted to OSCR must be signed with original signatures (not photocopies) and dated.

7.3 Processing of the Annual Return, Monitoring Return and accounts

The information collected from the Annual and Monitoring Returns will help OSCR maintain a regulatory system in which the public can have confidence and in which charities can grow and flourish. It will also provide statistics on the sector that will be useful to policy makers and the sector itself.

If any information is missing the forms will be reissued, partially completed with the data provided, and a covering letter will highlight the omissions. If the forms are complete but no accounts received, a letter will be sent requesting timely submission of the accounts.

The OSCR monitoring process involves a review of the accounts to ensure that the following key components are present:

- » the Trustees' Annual Report
- » report of the independent examiner or auditor
- » statement of receipts and payments, or a statement of financial activities
- » statement of balances or balance sheet

- » signatures and dates on both the accounts and reports
- » the Scottish charity number.

Where the accounts do not contain a compliant:

- » statement of receipts and payments (receipts and payments accounts) or statement of financial activities (fully accrued accounts)
- » statement of balances (receipts and payments accounts) or balance sheet (fully accrued accounts)
- » report of an independent examiner or audit, as appropriate

the accounts will be failed.

In addition, where a charity has previously received three letters from OSCR in consecutive years, highlighting deficiencies with the accounts and a problem is identified in OSCR's accounts review, the accounts will be failed.

Where a set of accounts has been failed, the charity must then re-submit a set of revised accounts within 60 days or within nine months of its financial year end, whichever is later.

Once all the information required is complete, the Annual Return entry on the Charity Register will be updated with a date to reflect that the information has been checked.

The information provided on the Monitoring Return will be assessed against a number of triggers. Where a trigger is activated, OSCR monitoring staff will undertake a more detailed review of the accounts in order to, wherever possible, resolve the issue. If, following the accounts review, the matter remains unanswered or additional points have been identified, a request for further information will be issued. Any unresolved matters remaining at the end of this

process will be assessed and may be directed to the Compliance and Investigations team for follow up.

OSCR has an Inquiry and Intervention Policy which sets out clearly how inquiries arising out of internal and external referrals and external complaints are undertaken.

Further information on OSCR's monitoring process and Inquiry and Intervention Policy can be obtained from OSCR's website at www.oscr.org.uk

7.4 Amalgamation, winding up and removal from the Scottish Charity Register

Charities proposing to amalgamate or wind up need to apply for OSCR's consent to take this action. Once consent is given and the amalgamation or winding up put into effect, a final set of accounts made up to the date of amalgamation or winding up must be produced and submitted to OSCR. These accounts must be prepared and subjected to external scrutiny as required by the Regulations.

7.5 Removal from the Register – protection of charitable assets

Charities can be removed from the Register either at their own request or by OSCR. Section 19 of the 2005 Act makes provision for the protection of charitable assets of organisations that continue to operate after being removed from the Register.

An organisation removed from the Register continues to be under a duty to use the assets it had at the date of its removal from the Register, and any income from these assets, for the charitable purposes for which they

were acquired. OSCR's powers of inquiry and intervention continue with respect to these assets even though the organisation is no longer a Scottish charity.

OSCR will require a statement of account made up to the date of removal from the Register and thereafter the charity will be required to submit an annual statement of account for these assets, and any income from them, for as long as they are held by the former charity. The annual statement of account for these assets must comply with the 2005 Act and Regulations.

OSCR has published separate guidance on the monitoring of charitable assets under section 19 of the 2005 Act which is available on OSCR's website at www.oscr.org.uk

Section 8 Consolidated accounts

8.1 Consolidated accounts

Some charities are part of a group structure with one or more subsidiaries. Producing consolidated accounts for the whole group provides an accurate picture of the charity and all its undertakings.

Parent charities with subsidiaries that have a combined gross income of at least £500,000 after deducting consolidation adjustments in any financial year must prepare consolidated accounts using the methods and principles of the Charities SORP. These must be submitted annually to OSCR.

The parent and subsidiary charities must still produce their own accounts as required by the Regulations. These must be submitted annually to OSCR.

8.2 Consolidated Trustees' Annual Report

Where a parent charity produces consolidated accounts, it may also prepare a consolidated trustees' annual report for the charity and its subsidiary charities.

The information contained in the consolidated trustees' annual report must follow the Regulations for the type of consolidated accounts produced (i.e receipts and payments or accruals).

A subsidiary charity which has been included in a consolidated trustees' annual report need not prepare a separate trustees' annual report as long as its own statement of account states:

- » that a consolidated Trustees' Annual Report has been prepared, and
- » where copies of the consolidated Trustees' Annual Report can be obtained.

Section 9 Connected charities

Some charities are connected by having common or related purposes, or by having a common controlling body or administration, e.g. a group of trustees that meet quarterly to consider a number of trusts at the same time. These charities have the option of preparing a single set of accounts to send to OSCR instead of preparing individual accounts.

The individual charity with the highest gross income will determine the type of accounts to prepare and the type of external scrutiny required.

Section 10 Charities registered elsewhere in the UK

A key principle of the 2005 Act is that all charitable activities in Scotland should be regulated by OSCR. Therefore charities registered in other jurisdictions, e.g. England and Wales, but which carry out activities in Scotland, are also required to register with OSCR.

Where there is no separate Scottish entity registered, such charities can prepare and submit to OSCR a set of accounts that covers all their UK activities. However, OSCR would expect to see some narrative in the trustees' annual report referring to activities in Scotland.

For further information on whether or not a charity registered in England and Wales should also register with OSCR see the OSCR publication 'Seeking charitable status for cross border charities' available from the OSCR website at www.oscr.org.uk. There is also guidance on the website that explains how cross border charities are regulated by OSCR.

Section 11 Sources of information, guidance and support

11.1 Sources of information and advice

Office of the Scottish Charity Regulator (OSCR)

OSCR is the Regulator for charities in Scotland and provides information and guidance on charity law and regulation in Scotland. Contact: OSCR, Quadrant House, 9 Riverside Drive, Dundee DD1 4NY or 01382 220446 or visit www.oscr.org.uk

The Charity Commission for England and Wales

The Charity Commission is the Regulator for charities in England and Wales and provides information and advice on matters affecting charities in England and Wales. Contact: Charity Commission Direct on 0300 066 9197 or www.charity-commission.gov.uk or www.gov.uk

Companies House

The Registrar of Companies in Scotland offers a wide range of services and guidance booklets. Contact: Companies House, 4th floor, Edinburgh Quay 2, Fountainbridge, Edinburgh EH3 9FF or 0870 33 33 636 or www.companieshouse.org.uk or www.gov.uk

Scottish Council of Voluntary Organisations (SCVO)

SCVO is the national body representing the voluntary sector and provides advice, information, support and assistance to charities. Contact: SCVO, Mansfield Traquair Centre, 15 Mansfield Place, Edinburgh EH3 6BB or the information service on 0800 169 0022 or www.scvo.org.uk

Third Sector Interface

Your local CVS or Volunteer Centre which offer support to voluntary organisations. Contact: 01324 692025 or visit www.voluntaryactionsotland.org.uk

11.2 Publications

Accounting and Reporting by Charities: Statement of Recommended Practice 2015 (FRS102 and FRSSE version)

Copies can be downloaded at: www.charitiessorp.org. Hard copies may be purchased from CIPFA. Contact 020 7543 5600.

Charity Finance Yearbook 2015

From Charity Finance Magazine. Contact: www.civilsociety.co.uk

Practical Guide to Financial Management for Charities and Voluntary Organisations

By Kate Sayer, 3rd edition, 2007, Directory of Social Change. ISBN 978 1 903991. Contact: www.dsc.org.uk or 08450 77 77 07

Practice Note 11 – The Audit of Charities in the United Kingdom

produced by the Auditing Practices Board. Contact www.frc.org.uk/apb/

The Charity Treasurer's Handbook

By Gareth Morgan, 4th edition. 2014, Directory of Social Change. ISBN 978 1 906294 89 2. Contact: www.dsc.org.uk or 08450 77 77 07

11.3 Professional bodies and statutory auditors

Professional body	Contact
The Institute of Chartered Accountants of Scotland	www.icas.org.uk
The Institute of Chartered Accountants in England and Wales	www.icaew.co.uk
The Institute of Chartered Accountants in Ireland	www.icaei.ie
The Association of Chartered Certified Accountants	www.accaglobal.com
The Association of Authorised Public Accountants	www.accaglobal.com/aapa/aapa
The Association of Accounting Technicians	www.aat.org.uk
The Association of International Accountants	www.aia.org.uk
The Chartered Institute of Management Accountants	www.cimaglobal.com
The Institute of Chartered Secretaries and Administrators	www.icsa.org.uk
The Chartered Institute of Public Finance and Accountancy	www.cipfa.org.uk
The Association of Charity Independent Examiners	www.acie.org.uk
The Accounts Commission for Scotland	www.audit-scotland.gov.uk
The Auditor General for Scotland	www.audit-scotland.gov.uk

Section 12 Glossary of terms

Accounting and Reporting by Charities: Statement of Recommended Practice (SORP)

The Statement of Recommended Practice is issued by OSCR and the Charity Commission for England and Wales to aid preparers and reviewers of charity accounts in interpreting UK GAAP for charities. In January 2015 two new SORPs were issued, the FRS102 and the FRSSE SORPs. These can be downloaded at: www.charitiessorp.org

Assets

Assets are property, goods, money, investments, rights to receive money in the future and logos, names, data and other intellectual property belonging to the charity.

Audit

An audit is an examination of an organisation's accounts carried out by someone eligible to act as an auditor in terms of section 1212 of the Companies Act 2006. Where the audit is being carried out on accrued accounts it will be carried out following the International Standards on Auditing. The opinion on fully accrued accounts will state whether the accounts give a true and fair view of the financial affairs of the organisation. A true and fair view cannot be given on receipts and payments accounts and the auditors' opinion will state whether the statement of accounts properly presents the receipts and payments and its statement of balances.

Close relative

Close relatives are children, parents, grandchildren, grandparents, brothers or sisters, and any spouse of these.

Consolidation adjustments

Consolidation adjustments are adjustments to remove inter-group transactions and balances between the parent charity and its subsidiaries so that the consolidated accounts accurately reflect the results and financial position of the whole group.

Connected organisation

An organisation is connected to a charity if it is controlled by the charity (either directly or through nominees) or it is a corporate body in which the charity has a substantial interest.

Connected person

A connected person is a person connected to a charity trustee by virtue of being:

- » a close relative
- » a spouse, civil partner or person with whom the charity trustee is living in an equivalent relationship
- » any institution, corporate body or Scottish partnership where the charity trustee, or person connected to the trustee, has a controlling or substantial interest.

Constitution

A constitution is:

- » In relation to a charity or other body established under the Companies Act, means its memorandum and articles of association.
- » In relation to a charity or other body which is a body of trustees, means the trust deed.
- » In relation to a SCIO means the document laid out in section 50 of the 2005 Act.
- » In relation to a charity or other body established by enactment, means the enactment which establishes and states its purpose.
- » In relation to charity or other body, established by a Royal charter or warrant, means the Royal charter or warrant.
- » In the case of any other charity or body, means the instrument which establishes it and states its purposes.

The constitution may be in the form of one document, or several documents.

Contingent liabilities

Contingent liabilities are liabilities that may arise from past events but whether they will, or how much they may be, cannot be established until a future event occurs.

Designated fund

A designated fund is that part of the charity's unrestricted funds that the charity trustees have decided to earmark, or designate, for a particular purpose.

Donated facilities and services

Donated facilities and services are gifts to the charity of facilities, services of volunteers or beneficial loan arrangements.

Enactment

An enactment includes Acts of both the Scottish and Westminster Parliaments and any subordinate legislation. Examples would be the Companies Act 2006, or the Charities and Trustee Investment (Scotland) Act 2005.

Endowment funds

An endowment is a fund consisting of property, including cash which is held for the benefit of the charity. The objective is to provide the charity with an income from the fund.

There are two forms of endowment fund:

- » a **permanent endowment fund** is one that consists of property (which may be heritable or moveable) that has been gifted to the charity with specific conditions attached and where the capital cannot be spent in any circumstances.
- » an **expendable endowment fund** is one that consists of property (which may be heritable or moveable) that has been gifted to the charity with specific conditions attached and which cannot be spent except in those circumstances specified in the terms of the endowment document.

Normally, the governing document of the charity or the directions of the donor of the endowment will specify how the income from the endowment can be used and therefore whether the income should be included in the accounts as restricted or unrestricted.

External scrutineer

A person that carries out an independent examination or audit.

Financial year

An accounting period of a charity that can be no more than 18 months. The first financial year of a charity cannot be less than six months.

Fully accrued accounts

Fully accrued accounts allocate the costs or income of a particular activity according to when the liability is incurred or when there is entitlement or certainty about income. This is not necessarily the date on which money is received or paid out.

Governing document

See constitution.

Gross income

A charity's gross income is the total incoming resources of the charity in all restricted and unrestricted funds but excluding the receipt of any donated asset in a permanent or expendable endowment fund.

Any income that has been collected specifically for, and passed onto, a third party (e.g. that part of a membership fee that is passed onto a parent body, or a collection held for another charity) should be excluded. However, the transferred amount should be recorded by way of a note to the accounts.

Independent examination

Independent examination is a less onerous form of external scrutiny than an audit and is available, under the Regulations, for charities with a gross income under £500,000, where the gross assets are less than £2,800,000 (£3,260,000 for financial years starting on or after 1 April 2011). It is not available where the constitution of the charity or another enactment requires the accounts to be audited. An independent examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from those records. The examiner then writes a report which provides the information required by the Regulations and provides an assurance of whether or not anything has been found that needs to be brought to the attention of readers of the accounts.

Liability/Liabilities

A liability is an obligation to transfer to another body at some future time, some economic benefit, which is usually but not always, a sum of money.

Receipts and payments accounts

Receipts and payments accounts are a simple form of accounting that consist of a summary of all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances.

Registered auditor

A registered auditor is someone eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

Reserves

General reserves are unrestricted funds held by a charity and are freely available to spend on any of the charity's purposes. This would exclude endowment and restricted funds and fixed assets.

Restricted funds

Restricted funds are funds that can only be used for the particular purposes specified by the donor. For example, if a local authority provides a grant to a local charity to refurbish the community hall, the grant is a restricted fund that can only be used for the purpose for which it was given, in this case refurbishing the hall. Another example would be if a charity carries out an appeal for a particular purpose (e.g. to purchase a minibus). The money raised by the appeal would be a restricted fund and should only be used for the purpose of the appeal.

Income from assets held in a restricted fund (e.g. interest) will be subject to the same restriction as the original fund unless the terms of the original restriction say otherwise.

Unrestricted funds

Unrestricted funds are funds that the charity trustees are able to use for any of the charity's purposes. Donations that are not given for a specific purpose would be an unrestricted fund (e.g. membership fees). Income from these funds is also unrestricted and can be used for any of the charity's purposes at the discretion of the charity trustees.

Charity trustees may decide to earmark part of a charity's unrestricted funds for a particular purpose, e.g. major repair works. These sums are designated for that purpose and should be accounted for as part of the charity's unrestricted funds.

Part 2: Receipts and Payments Accounts

Part 2: Receipts and Payments Accounts



Part 2: Receipts and Payments Accounts

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Section 1 Introduction

1.1 Introduction

This is Part 2 of the guidance on the preparation of receipts and payments accounts along with the relevant external scrutiny options and should be read in conjunction with Part 1 of this publication, The Overview.

Appendix 1 to this Part has an example set of receipts and payments accounts including the relevant Independent Examiner's report. A number of other example sets of accounts are available on the OSCR website at www.oscr.org.uk

1.2 What are receipts and payments accounts?

Receipts and payments accounts are created using a simple form of accounting that summarises all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances.

The main differences between receipts and payments and fully accrued accounts are that:

- » in receipts and payments accounts no adjustments are made for the timing of the income or payments to bring them in line with the activities to which they relate. So for example, if a charity pays its rent in advance just before the end of the financial year, the payment will be recorded in the accounts of the year it was actually paid, rather than in the year to which the payment relates
- » the purchase or sale of assets for cash would be included in the receipts and payments accounts. Assets owned by the charity should be shown separately on the statement of balances

- » changes in the value of assets are not included in receipts and payments accounts.

Formal accounting standards which are primarily concerned with ensuring that accounts show a true and fair view of a charity's financial affairs do not apply to receipts and payments accounts. However, the receipts and payments accounts must give sufficient detail to enable a reader to gain an appreciation of the transactions of the charity and of any surplus or deficit.

1.3 Can my charity prepare receipts and payments accounts?

Non-company charities with a gross income of less than £100,000 (£250,000 for financial years starting on or after 1 April 2011) can prepare accounts on a receipts and payments basis unless:

- » the constitution
- » any enactment or
- » a decision of the trustees requires the charity to prepare fully accrued accounts.

Charitable companies, registered social landlords and further and higher education institutions **cannot** prepare accounts on a receipts and payments basis.

See Figure 1 – Preparing Accounts in Part 1: The Overview (page 9), to check what type of accounts your charity must prepare.

Section 2 Content of receipts and payments accounts

2.1 Introduction

Under the Regulations, receipts and payments accounts must consist of:

- » a Trustees' Annual Report
- » a report from an external scrutineer
- » a statement of the receipts and payments
- » a statement of the balances as at the last day of the financial year
- » notes to the accounts.

Both the statement of balances and the trustees' annual report must be signed by one or more of the charity trustees on behalf of all the charity trustees and specify the date on which both were approved.

To allow comparisons to be made, all figures in the accounts must include the corresponding amount for the previous financial year.

The accounts must also distinguish between restricted, unrestricted, expendable and permanent endowment funds held by the charity.

OSCR has produced a receipts and payments workpack that can be used to assist with the preparation of receipts and payments accounts. The workpack includes detailed guidance and templates that can be completed. It is available to download from the OSCR website at www.oscr.org.uk

2.2 Trustees' Annual Report

A charity's financial statements alone do not provide all the information a reader would need to gain a full picture of the charity. The financial statements cannot easily explain:

- » what the charity has done – its outputs
- » what the charity has achieved – its outcomes
- » what difference the charity has made – its impact.

The financial statements also do not provide information on the structure, governance or management arrangements of a charity. All of these should be addressed by the trustees' annual report which is an important element of a charity's annual reporting. Charity trustees should be actively involved in preparing it. The report should enable a reader to understand how the numerical information presented in the financial statements relates to the organisational structure and activities of the charity.

The trustees' annual report from the charity trustees must include the following information:

- » the name of the charity as it appears on the Scottish Charity Register and any other name by which the charity is known
- » the charity's Scottish Charity Number. This will begin SC followed by six digits the first being 0 (zero)
- » the address of the principal office of the charity. Where the charity does not have an office the annual report must give the name and address of one of the charity trustees, unless the charity is entitled to exclude the address from its entry in the Register because OSCR is satisfied that to include this information would jeopardise the safety or security of people or premises

- » the names of all the charity trustees on the date the annual report was approved by the charity trustees unless:
 - there are more than 50 charity trustees, in which case the names of 50 charity trustees is sufficient. Office bearers should be included – e.g. Chair, Treasurer
 - the charity is entitled to exclude the names of the charity trustees because OSCR is satisfied that to include this information would jeopardise the safety or security of people or premises.
- » the name of anyone who has been a charity trustee during the financial year covered by the accounts of which the trustees' annual report forms part, unless the charity is entitled to exclude the names of the charity trustees because OSCR is satisfied that to include this information would jeopardise the safety or security of people or premises
- » the particulars of the constitution or governing document of the charity that contains the purposes and regulates the administration of the charity. This would include:
 - how the charity is constituted (e.g. unincorporated association, trust etc)
 - the organisational structure of the charity (e.g. a membership which elects a management committee or self-appointing trustees)
 - the relationship of the charity to any other body (e.g. affiliation with an umbrella group)
- » the purposes of the charity as set out in the constitution or governing document of the charity
- » a description of how charity trustees are recruited and appointed, including the name of any external body entitled to appoint charity trustees
- » a summary of the main activities of the charity and achievements in the financial year
- » a description of the policy the charity trustees have adopted to determine the level of reserves to be held by the charity. This should include:
 - the level of reserves held
 - why they are held
 - the amount and purpose of any designated fund, and the likely timing of any expenditure that has been set aside for the future
 - if the charity has a deficit, an explanation of how it came about and what steps are being taken to rectify it
 - an analysis of donated facilities and services, if any, that the charity received during the financial year.

The Trustees' Annual Report must be signed by one or more charity trustees on behalf of all the charity trustees and specify the date on which the statement of account, of which the trustees' annual report forms part, was approved.

2.3 Statement of receipts and payments

The statement of receipts and payments provides an analysis of the incoming and outgoing cash and bank transactions for the year. The analysis must show the following categories separately:

Receipts

- » donations
- » legacies
- » grants
- » receipts from fundraising activities – e.g. sponsorships

- » gross receipts from trading –
e.g. charity shop income
- » receipts from investments other than land and buildings
- » rent from land and buildings
- » gross receipts from other charitable activities.

In addition:

- » the proceeds from sale of fixed assets
- » the proceeds from sale of investments

should be shown separately from the above receipts.

Payments

- » expenses for fundraising activities
- » gross trading payments
- » investment management costs
- » payments relating directly to charitable activities, detailing material items
- » grants and donations relating directly to charitable activities
- » governance costs relating to:
 - independent examination or audit
 - preparation of annual accounts
 - legal costs associated with constitutional matters or trustee advice.

In addition:

- » purchase of fixed assets
- » purchase of investments

should be shown separately from the above payments.

The statement of receipts and payments must distinguish between unrestricted and restricted funds, as well as any expendable and permanent endowment funds. This is usually achieved by giving each fund a separate column in the accounts. Where a charity has more than one fund in any of these categories it should present the total funds held in each. The notes to the accounts must then explain in sufficient detail the content of the unrestricted, restricted and endowment funds so that the reader gains a full understanding of the accounts.

Any transfers from a restricted, unrestricted, expendable endowment or permanent endowment fund into another fund must be shown separately from the receipts and payments.

2.4 Statement of balances

As well as a statement of receipts and payments the accounts must contain a statement of balances. The statement must reconcile the cash and bank balances at the beginning and end of the financial year with the surplus or deficit shown in the statement of receipts and payments.

As with the statement of receipts and payments, the statement of balances must distinguish between restricted and unrestricted funds, as well as any expendable or permanent endowment funds held by the charity.

In addition the statement of balances must also:

- » summarise the investments held by the charity at their market valuation
- » summarise the other assets held by the charity, including gifted assets, either at their current value if available or at cost. Where the charity trustees consider the valuation to be lower than the cost, the valuation should be used

- » include a total estimate of the liabilities of the charity at the financial year end
- » contingent liabilities must be shown separately.

The statement of balances must be signed by a charity trustee on behalf of all the charity trustees and specify the date on which the statement of account was approved by the charity trustees.

2.5 Notes to the accounts

Notes are an important part of the accounts. They expand on or explain the information contained in the statements of receipts and payments and balances, and will help a reader understand the accounts.

The notes to the accounts must contain the following information, unless this information has been provided in the Trustees' Annual Report:

- » the nature and purpose of each fund held by the charity, including any restrictions on their use
- » the number and amount of any grants paid out by the charity, the type of activity or project supported by those grants, and whether they were paid out to an individual or an organisation
- » the amount of remuneration paid to a charity trustee or person connected to a charity trustee (a connected person). Any remuneration must be in accordance with section 67 of the 2005 Act and the note must specify the authority under which the remuneration was paid. If no remuneration was paid to a charity trustee or anyone connected to a charity trustee this must be stated
- » the total amount of expenses, if any, paid to charity trustees and the number of charity trustees receiving expenses. If no expenses were paid to charity trustees this must be stated

- » the nature of any transactions between the charity and any charity trustee or person connected to a charity trustee. This may include, for example, a charity trustee purchasing an asset from the charity or a charity paying a firm for services such as professional advice where a charity trustee has a substantial interest in the firm. This note must include:

- the nature of the relationship
 - the nature and amount of the transaction
 - any outstanding balance at the financial year end
- » any further information required to reasonably assist the reader to understand the statement of accounts.

2.6 Example accounts

To assist charities OSCR has published example sets of fictional accounts which illustrate receipts and payments accounts that comply with the Regulations. The accounts for Glendale After School Club are reproduced as Appendix 1. Further examples representing charities with wider activities and funding sources are available to download from the OSCR website at www.oscr.org.uk

It should not be assumed that the examples show the only way of presenting an item or that they include all the disclosures for a particular type of charity. Indeed many charities may choose to provide more detailed notes than those required by the Regulations. Any examples provided by OSCR are not designed to be used as a substitute for reference to sections 2.1 to 2.5 in this Part and the Regulations.

Section 3 External scrutiny

3.1 What type of external scrutiny should be carried out?

Non-company charities may prepare receipts and payments accounts where their gross income in a financial year is less than:

- » £100,000, where the accounting period started before 1 April 2011
- » £250,000 where the accounting period started on or after 1 April 2011.

Charities that have prepared accounts on a receipts and payments basis can subject their accounts to an independent examination unless:

- » the constitution or governing document of the charity requires the accounts to be subject to an audit
- » the charity trustees have decided to subject the accounts to an audit
- » any enactment requires the accounts to have been subject to an audit.

If any of these requirements apply the charity must subject the accounts to an audit by a registered auditor. (Refer to Part 1: The Overview – Section 3, page 10)

3.2 Independent examination

Independent examination is a less onerous form of external scrutiny than an audit and is available, under the Regulations, for charities with a gross income under £500,000. This threshold has been set at a level where the more detailed audit scrutiny is not deemed essential as the scrutiny of an independent examination is deemed rigorous enough for this size of charity.

An independent examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from those records. The examiner then prepares a report which provides the information required by the Regulations and provides an assurance as to whether or not anything has been found that needs to be brought to the attention of readers of the accounts.

The independent examination of receipts and payments accounts must be carried out by someone independent of the management and administration of the charity and who the trustees believe has the required skills and experience to carry out a competent examination of the accounts.

See section 4.1 in Part 1: The Overview (page 13) for an explanation of who would be considered independent of the management and administration of the charity.

In deciding who might have the required skills charity trustees should take into consideration the degree of complexity of the charity's accounts. The more complex the accounts the higher the level of qualification or experience the independent examiner will require. The types of people who charity trustees could consider as having the required skills and experience might include for example:

- » full or associate members of the Association of Charity Independent Examiners
- » qualified accountants currently in employment
- » retired accountants
- » other professionals familiar with financial matters whether or not currently employed
- » other people familiar with financial matters.

3.3 Content of the independent examination report

After completing the independent examination of a charity's accounts the examiner must make a report to the charity trustees which:

- » states the name and address of the independent examiner and the name of the charity concerned
- » is signed and dated by the independent examiner and states any relevant professional qualifications they may have or of which professional body they are a member. The independent examiner must sign and date their report at the same time or shortly after, but not before, the charity trustees approve the accounts
- » specifies the financial year of the accounts to which the report relates
- » specifies that the report is an examination carried out under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005
- » states whether or not anything has come to the attention of the independent examiner which gives them reasonable cause to believe that:
 - proper accounting records have not been kept
 - the accounts do not agree with the records
 - the receipts and payments accounts do not comply with Regulation 9
- » states whether or not the independent examiner believes there is anything that should be drawn to the attention of readers to help them understand the accounts

- » states if any of the following matters have become apparent to the independent examiner:
 - there has been any material expenditure or action not in accordance with the purposes of the charity
 - that information to which the examiner is entitled has been withheld
 - that there is a material difference between the accounts and the annual report prepared by the charity trustees.

An example independent examiner's report is shown as part of the example accounts within Appendix 1 (page 41) of this Part of the guidance.

3.4 Audit

Where a charity has prepared accounts on the receipts and payments basis and an audit is required, the audit must be carried out by a registered auditor. An audit report of receipts and payments accounts will not comment on whether the accounts provide a true and fair view of the financial affairs of the charity. However, the audit report will say whether or not the statement of account properly presents the receipts and payments of the charity.

The auditor must prepare a report on the accounts for the charity trustees that:

- » states the name and address of the auditor and the name of the charity
- » is signed by the auditor or someone authorised to sign on behalf of a company or partnership
- » states that the auditor is a person who is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006
- » states the date of the report and specifies the financial year of the accounts to which the report relates

- » specifies that it is a report carried out under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005
- » states whether, in the opinion of the auditor:
 - the statement of account complies with Regulations 9(1), (2) and (3) dealing with receipts and payments accounts, and
 - **properly presents** the receipts and payments of the charity for the financial year, and the statement of balances at the year end
- » contains a statement where the auditor has formed the opinion with regard to the following, that:
 - proper accounting records have not been kept
 - the accounts do not agree with the records
 - there is a material difference between the accounts and the annual report prepared by the charity trustees
 - that information to which the auditor is entitled has been withheld.

The statement must contain the grounds for forming any of the above opinions.

In preparing the audit report the auditor must carry out such investigations as he or she feels necessary to enable them to form an opinion regarding the matters above.

Where an auditor appointed by charity trustees ceases to act as the auditor he or she must send to the charity trustees:

- » a statement of any circumstances connected with the auditor ceasing to hold that office that he or she feels should be brought to the attention of the charity trustees, or

- » if the auditor considers there are no circumstances that need to be reported to the charity trustees, a statement that there are none.

The auditor must also send to OSCR a copy of any report he or she has sent to the charity trustees containing circumstances connected with the auditor ceasing to hold that office that he or she feels should be brought to the attention of the charity trustees.

3.5 Duty to report matters to OSCR

See section 4.3 of Part 1: The Overview (page 13), for guidance on the independent examiners and auditors duty to report matters to OSCR under section 46 of the 2005 Act.

Section 4 Reporting to OSCR

The statement of account and report from the independent examiner or auditor must be submitted to OSCR each year. The accounts should be submitted at the same time as the charity's Annual Return. See section 7 of Part 1: The Overview (page 16), for detailed guidance on the requirements for reporting to OSCR.

Appendix 1: Example accounts

Glendale After School Club

Scottish Charity No SC074551

Annual Report & Financial Statements

For the Year Ended 31 December 2010

Trustees' Annual Report

For the Year Ended 31 December 2010

The trustees have pleasure in presenting their report together with the financial statements and the independent examiner's report for the year ended 31 December 2010.

Reference & Administrative Information

Charity Name

Glendale After School Club

Charity No

SC074551

Address

C/o Janis Brown, 14 Leyland Gardens, Glendale, EZ3 4YG

Current Trustees

Janice Brown	Chair
Mary Wilson	Secretary
Robin Campbell	Treasurer
Cyril Anderson	
Claire Deans	Elected – 14/06/2010
Sylvia Gregory	
Neil Jackson	Elected – 14/06/2010

Other Trustees who served during the year

Carol Healey	Retired – 14/06/2010
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Structure Governance & Management

Constitution

The Charity is an unincorporated association. It is governed by its constitution which was adopted on 16 April 2004 and last amended on 14 August 2009. The Club was granted charitable status by OSCR on 4 January 2007.

Appointment of Trustees

The management committee, which normally meets on a monthly basis, are the charity's trustees. Membership of the management committee is open to all parents and guardians of children in the Club.

Trustees are elected at the Annual General Meeting which is normally held in June. Under the constitution, there must be a minimum of three and not more than nine elected trustees. The trustees may co-opt a further three trustees if they consider it would be in the interests of the Club to do so.

Management

The trustees are responsible for the strategic direction and governance of the Club, whilst day-to-day running is delegated to the Club Manager and her assistant, both of whom are paid members of staff. We also have several volunteer leaders to assist on a rota basis. The Club Manager attends the trustee meetings to discuss progress and development.

The trustees are particularly aware of their responsibilities for Health and Safety, especially for the children. In addition to comprehensive insurance, our staff and volunteers all have disclosures under the Protection of Vulnerable Groups (PVG) Scheme.

Objectives & Activities

Charitable purposes

To provide social and educational care facilities for children of primary school age in Glendale and the surrounding area both after school each day and during school holidays.

Activities

Our activities are all about stimulating the children and encouraging their development in a safe and caring environment. Activities include many aspects of Art & Crafts, Dance, Drama, Indoor & Outdoors Games, Physical Exercise, Singing, Team Challenges and many more.

Achievements & Performance

Demand for places at the Club remains high and we continue to have a waiting list. We are limited by both the capacity of our meeting place, Glendale Village Hall, as well as the number of leaders available.

In July, we were delighted that our efforts were recognised when we received a “highly commended” award from the National After School Clubs Council. Not only was this greatly appreciated by everyone involved in the Club, but should also help us to obtain funding to replace some of our older equipment.

Our annual summer outing in 2010 was to the Museum of Flight where the children (and not a few adults) not only enjoyed the day out but in the process learned a great deal about aviation history.

Our daily activities, both in the Village Hall and outside when the weather permits, provide a complimentary but less formal learning process to that in school. The high attendances we have, even during the school holidays, are testimony to the enjoyment the children get from attending the Club.

Financial Review

Our main source of funding continues to be fees charged to parents. We have again received a grant from Central Council towards running costs, as we continue to provide places for disabled children. We are very grateful to Glendale Community Council for awarding us £1,000 towards the cost of two much needed wheelchairs and £500 towards the cost of a computer with facilities for those unable to use a keyboard. A small legacy from the estate of a former head teacher of Glendale Primary School in recognition of the Club's contribution to the community was much appreciated.

Each year we donate a small amount of the funds we raise to other charities. This year the children agreed that we would give £100 to Glendale Children's Hospice. In addition, the children themselves raised £84 which they gave to Glendale Church's Christmas appeal for orphanages abroad.

Receipts on the unrestricted fund were £15,398 (2009: £14,912) largely due to small increase in fees from April 2010. Payments for the year were £15,845 (2009: £14,827) as a result of increased staff costs. Including the balance of the cost of the wheelchairs, the resultant deficit for the year was £618 which was taken from reserves.

At the end of the year, £500 remained in the restricted fund to meet the cost of the computer which we expect to be delivered in the spring of 2011.

Reserves Policy

The trustees' policy is to maintain reserves at around 2-3 months of normal running costs in order to meet commitments and to cover any unexpected expenditure. Reserves at the end of the year were £3,574, which is within the target range.

Plans for Future Periods

The trustees intend to continue and develop the service that the Club provides for the benefit of the children in the community. We are actively considering starting another group in Glenside, our neighbouring village, where over 200 houses have been built in the last three years. However, this is very much dependent on finding suitable premises and sufficient leaders.

We intend to establish a Scottish Charitable Incorporated Organisation (SCIO) to take over from the existing unincorporated organisation during the current year. This will not affect the way in which the Club operates but will provide a measure of protection for the trustees as well as giving us the ability to hold property and contracts in name of the Club.

Approved by the trustees on 15 March 2011 and signed on their behalf by:

Janice Brown
Chair

Independent Examiner's Report

For the Year Ended 31 December 2010

Independent Examiner's Report to the Trustees of Glendale After School Club

I report on the financial statements of the charity for the year ended 31 December 2010, which are set out on pages X to X.

Respective responsibilities of Trustees and Examiner

The charity's trustees are responsible for the preparation of the accounts in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 ("the 2005 Act") and the Charities Accounts (Scotland) Regulations 2006 (as amended) ("the 2006 Regulations"). The charity's trustees consider that the audit requirement of Regulation 10(1)(d) of the 2006 Regulations does not apply. It is my responsibility to examine the accounts as required under section (44)(1)(c) of the 2005 Act and to state whether particular matters have come to my attention.

Basis of Independent Examiner's Statement

My examination is carried out in accordance with Regulation 11 of the 2006 Regulations. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts and seeks explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and, consequently, I do not express an audit opinion on the view given by the accounts.

Independent Examiner's Statement

In connection with my examination, no matter has come to my attention:

- 1 which gives me reasonable cause to believe that, in any material respect, the requirements:
 - to keep accounting records in accordance with section 44(1)(a) of the 2005 Act and Regulation 4 of the 2006 Regulations, and
 - to prepare accounts which accord with the accounting records and comply with Regulation 9 of the 2006 Regulations have not been met, or
- 2 to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Kevin Brown FCIE

3 Cannon Grove
Glendale
EZ3 4DF
19 May 2011

Statement of Receipts and Payments – For the Year Ended 31 December 2010

Receipts	Note	Unrestricted Funds	Restricted Funds	Total 2010	Total 2009
Voluntary Receipts					
Donations & Gift Aid		629	-	629	398
Grants	4	1,000	1,500	2,500	1,000
Legacy		150	-	150	-
Fund Raising		1,231	-	1,231	1,802
Bank Interest		147	-	147	231
Receipts from Charitable Activities					
Membership Fees		10,763	-	10,763	9,904
Summer Outing		1,478	-	1,478	1,577
		15,398	1,500	16,898	14,912
Payments					
Cost of Fund Raising		389	-	389	207
Cost of Charitable Activities	5	14,457	-	14,457	13,942
Grants & Donations	6	100	-	100	100
Governance Costs	7	260	-	260	177
Purchase of Equipment		639	1,171	1,810	401
Total Payments		15,845	1,171	17,016	14,827
Surplus/(Deficit) for the year		(447)	329	(118)	85
Transfers between funds	8	(171)	171	-	
Surplus/(Deficit) for the year		(618)	500	(118)	85

The Notes on pages 7 & 8 form an integral part of these accounts

The above statement excludes funds raised in behalf of other charities as shown in Note 9

Statement of Balances – As at 31 December 2010

Funds Reconciliation	Unrestricted Funds	Restricted Funds	Total 2010	Total 2009
Cash at Bank & In Hand - 31/12/2009	4,192	-	4,192	4,107
Surplus/(Deficit) for year	(618)	500	(118)	85
Cash at Bank & In Hand - 31/12//2010	3,574	500	4,074	4,192

Bank & Cash Balances

Bank Deposit Account	3,500	3,000
Bank Current Account	535	1,148
Cash in Hand	39	44
	4,074	4,192

Other Assets (Unrestricted Fund)

Play equipment (estimated value)	750	600
Wheelchairs (at cost)	1,171	-
Membership fees due	110	65
Gift Aid accrued on donations at year end	101	78
	2,132	743

Liabilities (Unrestricted Fund)

Glendale Village Hall (for hall hire)	307	116
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All funds are unrestricted

The Notes on pages 7 & 8 form an integral part of these accounts

Approved by the trustees on 15 March 2011 and signed on their behalf by:

Janice Brown
Chair

Robin Campbell
Treasurer

Notes to the Accounts – For the Year Ended 31 December 2010

1 Basis of Accounting

These accounts have been prepared on the Receipts & Payments basis in accordance with the Charities & Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2 Nature and purpose of funds

Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity. The trustees maintain a single unrestricted fund for the day-to-day running of the Club.

Restricted funds may only be used for specific purposes. Restrictions arise when specified by the donor or when funds are raised for specific purposes. During the year, the Club received a grant of £1,500 from Glendale Community Council being £1,000 towards the cost of two wheelchairs and £500 towards a new computer for use by disabled children.

3 Related Party Transactions

The Club's insurance policy includes Trustee Indemnity Insurance for all its trustees. No other remuneration was paid to the trustees or to any connected persons during the year (2009: Nil).

Travelling expenses totalling £126 were paid to two trustees during the year to enable them to attend the National After School Clubs Conference (2009: Nil).

4. Grants Received	Unrestricted Funds	Restricted Funds	Total 2010	Total 2009
Central Council	1,000	-	1,000	1,000
Glendale Community Council	-	1,500	1,500	-
	1,000	1,500	2,500	1,000

5. Cost of Charitable Activities	Unrestricted Funds	Restricted Funds	Total 2010	Total 2009
Wages & National Insurance	8,328	-	8,328	7,823
Hall Hire	1,507	-	1,507	1,434
Catering	1,324	-	1,324	1,480
Equipment Repairs & Maintenance	239	-	239	552
Insurance	688	-	688	664
Summer Outing	1,862	-	1,862	1,673
Postage, Stationery & Telephone	383	-	383	316
Travelling Expenses	126	-	126	-
	14,457	-	14,457	13,942

Notes to the Accounts – For the Year Ended 31 December 2010

6. Grants & Donations made

	2010	2009
Barnardo's	-	100
Glendale Children's Hospice	100	-
	100	100

7. Governance Costs

Annual Accounts & AGM	135	127
Independent Examiner's Fee	50	50
Legal Advice	75	-
	260	177

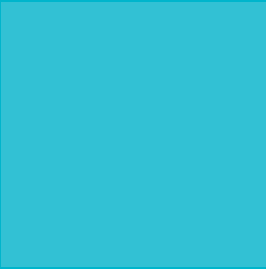
8. Transfers between funds

£171 was transferred from the unrestricted fund to the restricted fund to meet the balance of the cost of the wheelchairs not covered by the grant from Glendale Community Council.

9. Funds collected for other charities

Glendale Parish Church Christmas Appeal	84	50
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Part 3: Fully Accrued Accounts



Part 3: Fully Accrued Accounts

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Section 1 Introduction

1.1 Introduction

This is Part 3 of the guidance on the preparation of fully accrued accounts along with the relevant external scrutiny options, and should be read in conjunction with Part 1 of this publication, The Overview.

Appendix 1 to this Part contains an example independent examiner's report and directs readers to where examples of accrued accounts can be found.

1.2 Should the charity prepare fully accrued accounts?

Fully accrued accounts must be prepared by a charity that fulfils at least one of the following criteria:

- » has a gross income for the year of £100,000 or more (this threshold increases to £250,000 for accounting periods starting on or after 1 April 2011)
- » is a company or a Registered Social Landlord or a Higher or Further Education Institution
- » the constitution or governing document or any enactment of Parliament says the charity should prepare fully accrued accounts, or accounts that give a true and fair view of its financial affairs
- » the trustees have decided that they will prepare fully accrued accounts.

See Figure 1 – Preparing Accounts in Part 1: The Overview (page 9), to check what type of accounts a charity must prepare.

While a charity with a gross income under £100,000 (£250,000 for accounting periods starting on or after 1 April 2011) may be able to prepare accounts on a receipts and payments basis, the charity trustees may decide nevertheless that they wish to have fully accrued accounts prepared because they want their accounts to show the financial affairs of the charity on a true and

fair basis. However, because fully accrued accounts must follow the Charities SORP and, if independently examined, be examined by a qualified independent examiner (see section 3.5), charity trustees should fully consider the implications of deciding to prepare fully accrued accounts if they are not otherwise required.

1.3 How should the charity prepare fully accrued accounts?

Accounts prepared using the accruals basis should recognise incoming resources when the effect of the transaction or other event results in an increase in the charity's assets. This normally depends upon entitlement to the resources, certainty that they will be received and a reliable estimate of the amount. This is not necessarily the same date as when monies are received.

Expenditure should be recognised when the liability is incurred which is as soon as there is a legal or constructive obligation committing the charity to the expenditure. This is not necessarily the same date as when monies are paid out.

It is generally recognised that for a statement of account to give a true and fair view of the financial state of a charity it should be produced on the fully accrued basis. This means that they should be prepared in accordance with UK Generally Accepted Accounting Principles (GAAP) and the methods and principles of the Charities SORP.

In January 2015 OSCR and the Charity Commission for England and Wales issued two new editions of Accounting and Reporting by Charities: Statement of Recommended Practice. These have been updated to reflect changes in UK GAAP and to allow for a SORP for FRS102 and one for FRSSE. The SORPs aim to:

- » improve the quality of financial reporting by charities

- » enhance the relevance, comparability and understanding of information presented in accounts
- » explain and clarify the interpretation of accounting standards when applied to charities.

Schedule 1 of the Regulations specifies that fully accrued accounts must be prepared in accordance with the methods and principles of the Charities SORPs. This reference has been updated to reflect the new editions of the SORP and includes reference to any Charities SORP update bulletins or information sheets.

Registered social landlords and further or higher education institutions must prepare their accounts as specified in their own industry Statement of Recommended Practice (SORP). Their accounts must contain an income and expenditure account in place of the statement of financial activities along with a balance sheet and notes to the accounts.

Given the complicated nature of both the Charities SORP and the preparation of fully accrued accounts, charity trustees may wish to consider using professional accountants when preparing accrued accounts if the charity does not have the skills in-house.

This document will only provide a general outline and the key requirements for fully accrued accounts because further, more detailed, information can be found in the Charities SORP.

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland.

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities.

Copies can be downloaded at www.charitiessorp.org

Hard copies may be purchased from CIPFA. Contact 020 7543 5100 or visit: www.cipfa.org

Section 2 Content and principles to be used when preparing fully accrued accounts

Under the Regulations the statement of account for fully accrued accounts must consist of:

- » **a Trustees' Annual Report** from the charity trustees of the activities of the charity. The content of the annual report is detailed in the Charities SORP. The annual report is a crucial component of the statement of account and its preparation should actively involve the charity trustees. It provides information that is not contained in the financial statements that will enable a reader to understand how the numerical information relates to the organisational structure and activities of the charity
- » **an external scrutiny report** from either an independent examiner or auditor
- » **a statement of the financial activities (often referred to as the SOFA)** of the charity that gives a true and fair view of the incoming resources of the charity and their application during the financial year
- » **a balance sheet** that gives a true and fair view of the state of the financial affairs of the charity at the end of the financial year
- » **a cash flow statement**, if appropriate
- » **notes to the accounts** that explain the accounting policies adopted and explain or expand on the information contained within the main accounting statement. See the Charities SORP for further information.

The balance sheet and trustees' annual report must be signed by one of the charity trustees on behalf of all the charity's trustees. Both documents must also specify the date on which the statement of account of which they form part was approved by the charity trustees.

The trustees' or directors' report of a charitable company is often signed by the company secretary. Where the company secretary is not also a charity trustee the report must be signed by a charity trustee; it may in addition be signed by the company secretary.

The statement of account must be prepared in accordance with the methods and principles set out in the Charities SORP.

Additional information must be provided in the notes to the accounts where the statement of financial activities and the balance sheet are insufficient on their own to provide a true and fair view.

If compliance with the Regulations for the preparation of accounts would not be consistent with giving a true and fair view, the trustees should depart from the Regulations to the extent necessary to give a true and fair view.

To allow comparisons to be made any figures in the statement of financial activities or balance sheet must include the corresponding amount for the previous financial year or period. Where the corresponding amount referred to has a different definition it must be adjusted to allow a comparison to be made.

Where there is no figure to be shown in the statement of account but there was a corresponding amount in the previous year, then the previous year's figure must be shown.

The statement of financial activities must distinguish between unrestricted, restricted and endowment funds. However, where a charity has more than one fund in any of these categories the statement of financial activities should present the total funds held in each. The notes to the accounts must then explain in sufficient detail the content of the unrestricted, restricted and endowment funds so that the reader gains a full understanding of the accounts.

Section 3 External scrutiny

3.1 What type of external scrutiny should be carried out?

This depends on its gross income and net assets or whether or not the charity is also a company. See Figure 2 in Part 1: The Overview (page 12), to check the type of scrutiny to which a charity must subject its statement of account.

3.2 External scrutiny of fully accrued accounts for charities that are not companies

Charities that are not companies are subject to the following external scrutiny thresholds in the Regulations:

- » non-company charities that have prepared accrued accounts and have a gross income of less than £500,000 and assets before deduction of liabilities of £2,800,000 (£3,260,000 for accounting periods starting on or after 1 April 2011) or less in any financial year can subject their accounts to an independent examination and not an audit unless:
 - the constitution or governing document of the charity requires the accounts to be subject to an audit, or
 - the charity trustees have decided to subject the accounts to an audit, or
 - any enactment requires the accounts to be the subject of an audit.

See sections 3.4 to 3.6 overleaf on independent examination for further details of the independent examination.

- » non-company charities that:
 - have an income of £500,000 or above, or
 - have an income of less than £500,000, but have prepared fully accrued accounts

and have assets (before deduction of liabilities) greater than £2,800,000 (£3,260,000 for accounting periods starting on or after 1 April 2011), or

- have an income of less than £500,000 but their constitution or any enactment says they should, or the charity trustees decide they should,

must have an audit by a registered auditor or the Auditor General for Scotland or an auditor appointed by the Accounts Commission for Scotland.

See section 3.7 for further details on the requirements for audit.

3.3 External scrutiny of charitable companies

Unless the Memorandum and Articles of Association indicate otherwise, charities that are also companies are subject to the following external scrutiny thresholds under charity law:

- » where the gross income is less than £500,000 and the gross assets are no more than £2,800,000 (£3,260,000 for accounting periods starting on or after 1 April 2011), an independent examination under the Regulations is required (see sections 3.4 to 3.6 overleaf)
- » where the gross income is £500,000 or more or where the gross assets are more than £2,800,000 (£3,260,000 for accounting periods starting on or after 1 April 2011), an audit is required under the Regulations
- » if the charitable company does not meet the conditions for audit exemption under company law and therefore requires an audit under the Companies Act 2006, an audit is required under both the Regulations and the Companies Act 2006.

Where an audit is required, this must be carried out by a registered auditor (see section 3.7).

Charitable companies which are either a parent company or a subsidiary are not entitled to the above exemptions from audit unless the group of which it is a component qualifies as a small group in terms of company law. This would alleviate any requirement for audit under company law but not under the Regulations.

For the audit requirements under the Companies Act contact Companies House or a professional accountant.

3.4 Independent examination

Independent examination is a less onerous form of external scrutiny than an audit and is available, under the Regulations, for charities preparing fully accrued accounts where:

- » gross income is under £500,000, and
- » gross assets are less than £2,800,000 (£3,260,000 for financial periods starting on or after 1 April 2011).

It is not available where the constitution of the charity or another enactment requires the accounts to be audited. This threshold has been set at a level where the more detailed audit scrutiny is not deemed essential as the scrutiny of an independent examination for accrued accounts is deemed rigorous enough for this size of charity.

An independent examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from those records. The examiner then prepares a report which provides the information required by the Regulations and provides an assurance whether or not anything has been found that needs to be brought to the attention of readers of the accounts (see section 3.6 overleaf).

3.5 Who can carry out an independent examination of fully accrued accounts?

For charities which produce fully accrued accounts, the independent examination must be carried out by one of the following:

- » a member of one of the following professional bodies:
 - The Institute of Chartered Accountants of Scotland
 - The Institute of Chartered Accountants in England and Wales
 - The Institute of Chartered Accountants in Ireland
 - The Association of Chartered Certified Accountants
 - The Association of Authorised Public Accountants
 - The Association of Accounting Technicians
 - The Association of International Accountants
 - The Chartered Institute of Management Accountants
 - The Institute of Chartered Secretaries and Administrators
 - The Chartered Institute of Public Finance and Accountancy
 - a full member of the Association of Charity Independent Examiners
 - the Auditor General for Scotland
 - The Institute of Financial Accountants
 - a person appointed by the Accounts Commission for Scotland.

See section 4 in Part 1: The Overview (page 13), for guidance on deciding who to appoint as an independent examiner.

3.6 Content of the independent examiner's report

After completing the independent examination of a charity's accounts the examiner must make a report to the charity trustees which:

- » states the name and address of the independent examiner and the name of the charity concerned
- » is signed and dated by the independent examiner and states any relevant professional qualifications they may have or of which professional body they are a member. The independent examiner must sign and date their report at the same time as or shortly after, but not before, the charity trustees approve the accounts
- » specifies the financial year of the accounts to which the report relates
- » specifies that the report is an examination carried out under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005
- » states whether or not anything has come to the attention of the independent examiner which gives them reasonable cause to believe that:
 - proper accounting records have not been kept
 - the accounts do not agree with the records
 - the accounts do not comply with Regulation 8
- » states whether or not the independent examiner believes there is anything that should be drawn to the attention of readers to help them understand the accounts
- » states if any of the following matters have become apparent to the independent examiner:
 - that there has been any material expenditure or action not in accordance with the purposes of the charity

- that information to which they are entitled has been withheld
- that there is a material difference between the accounts and the annual report prepared by the charity trustees.

An example independent examiner's report is attached at Appendix 1 (page 56) to this Part of the guidance.

3.7 Audit

Where a charity has prepared accrued accounts and requires an audit, the audit must be carried out by a registered auditor or by the Auditor General for Scotland or by an auditor appointed by the Accounts Commission for Scotland following UK auditing standards.

The auditor must prepare a report on the accounts for the charity trustees that:

- » states the name and address of the auditor and the name of the charity
- » is signed by the auditor or someone authorised to sign on behalf of an audit firm or partnership
- » states that the auditor is a person who is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006
- » states the date of the report and specifies the financial year of the accounts to which the report relates
- » specifies that it is a report carried out under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005
- » states whether, in the opinion of the auditor:
 - the statement of account complies with Regulation 8 dealing with fully accrued accounts and
 - gives a **true and fair view** of the financial affairs of the charity at the end of the financial year, and of the incoming resources and their application in that financial year

- » contains a statement where the auditor has formed the opinion with regard to the following that:
 - proper accounting records have not been kept
 - the accounts do not agree with the records
 - there is a material difference between the accounts and the annual report prepared by the charity trustees
 - information to which they are entitled has been withheld.

The statement must contain the grounds for forming any of the above opinions.

In preparing the audit report the auditor must carry out such investigations as are necessary to enable an audit opinion be formed.

Where an auditor appointed by charity trustees resigns he or she must send to the charity trustees:

- » a statement of any circumstances connected with the auditor ceasing to hold that office that they feel should be brought to the attention of the charity trustees, or
- » if the auditor considers there are no circumstances that need to be reported to the charity trustees, a statement that there are none.

The auditor must also send to OSCR a copy of any report he or she has sent to the charity trustees containing circumstances connected with the auditor ceasing to hold that office that he or she feels should be brought to the attention of the charity trustees.

Further detailed guidance on audit requirements can be found in Practice Note 11 – The Audit of Charities in the United Kingdom, produced by the Auditing Practices Board. Contact www.frc.org.uk

3.8 Duty to report matters to OSCR

See section 4.3 of Part 1: The Overview (page 13), for guidance on the independent examiners and auditors duty to report matters to OSCR under section 46 of the 2005 Act.

Section 4 Reporting to OSCR

The statement of account and report from the independent examiner or auditor must be submitted to OSCR each year at the same time as the charity's Annual Return. See section 7 of Part 1: The Overview, for guidance on the requirements for reporting to OSCR.

Section 5 Example accounts

To assist charities preparing reports and accounts in line with the recommendations of the Charities SORP OSCR has produced a number of example reports and accounts that may help you with designing the layout and format of these documents. The documents can be found on both the OSCR website at www.oscr.org.uk and the SORP microsite at www.charitycorp.org

Appendix 1: Example independent examiner's report (fully accrued accounts)

Independent Examiner's Report to the Trustees of "ABC" Trust

I report on the accounts of the charity for the year ended xx xxxx 20xx which are set out on pages xx to xx.

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). The charity trustees consider that the audit requirement of Regulation 10(1) (a) to (c) of the Accounts Regulations does not apply. It is my responsibility to examine the accounts as required under section 44(1) (c) of the Act and to state whether particular matters have come to my attention.

Basis of independent examiner's statement

My examination is carried out in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006 (as amended). An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeks explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

Independent examiner's statement

In the course of my examination, no matter has come to my attention [other than disclosed below*]

1. which gives me reasonable cause to believe that in any material respect the requirements:
 - to keep accounting records in accordance with Section 44(1) (a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations, and
 - to prepare accounts which accord with the accounting records and comply with Regulation 8 of the 2006 Accounts Regulations have not been met, or
2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant Professional qualification/professional body:

Address:

Date:

* Please delete the words in brackets if they do not apply. If the words do apply, set out those matters which have come to your attention.

HAPPY TO TRANSLATE



Committee:	Audit			
Subject/Issue:	GDPR Update (February 2019)			
Brief summary of the paper:	This paper provides a brief update on GDPR compliance monitoring. Members should note that there has been an increase in recording of data breach incidents. Email use and phishing attacks continue to be a concern, despite previous advice given to staff.			
Action requested/decision required:	For noting.			
Status: (please tick ✓)	Reserved:		Non-reserved:	✓
Date paper prepared:	14 th February 2019			
Date of committee meeting:	19 th February 2018			
Author:	Derek Duncan			
Link with strategy: Please highlight how the paper links to, or assists with: compliance partnership services risk management strategic plan/enabler other activity (eg new opportunity) – please provide further information.	Risk Register ID Moray/25: Non-compliance with relevant statutory regulations. The College must have in place effective controls to ensure personal data is kept secure and processed in line with data protection law.			
Equality and diversity implications:	Yes – the College is both a Data Controller and Data Processor of sensitive personal data.			
Resource implications: <i>(If yes, please provide detail)</i>	All required resources are in place.			
Risk implications: <i>(If yes, please provide detail)</i>	Data protection breaches can lead to serious financial and reputational damage to the College.			

1. Reporting Period

This report covers the period 20th November 2018 to 14th February 2019.

2. Data Breaches and Investigations

The data breach log recorded 8 new incidents in the reporting period. This includes actual data breaches (3) and investigations (5) where no College breach occurred.

A summary of all incidents is provided in the table below:

ID	Description of Breach	Decision and Resolution
7	Incident involving improper use of ICT on an external 3 rd party system by an enrolled student.	Disciplinary action.
8	Data sharing by email, wrong recipient (internal only) This incident was classed as a data breach.	Line manager was alerted and spoke with the staff member involved.
9	Data sharing by email, wrong recipient (internal only) This incident was classed as a data breach.	Line manager was alerted and spoke with the staff member involved.
10	Data sharing by email involved too many staff and included personal data which should not have been shared (internal only) This incident was classed as a data breach.	Line manager spoke with the staff involved and reminded them about confidentiality.
11	Staff member responded to a phishing email. No data breach was detected.	The staff member was given advice by the ITU Manager. All staff email sent.
12	A concern was raised about how a 3 rd party company shared credit card details of clients with College staff. No breach occurred.	The 3 rd party ceased the practice.
13	A small number of College desktop computers demonstrated symptoms similar to a virus attack. The staff file server was immediately taken offline for investigation and the computers were quarantined. The problem was traced to 2 separate faults within Windows Server and was confirmed not to be virus related. No breach occurred.	Full virus scans on all staff shares. A change was made to the configuration of the staff file server.
14	A staff member responded to a phishing email and the issue was immediately resolved. No breach was detected.	Staff member password changed and advice given.

3. Breach Summary

As with all data breaches, the UHI DPO is informed and none were in scope for ICO reporting.

The action taken by ITU staff to isolate the staff file server to investigate the suspected virus attack was classed as excellent practice.

The committee should note that despite awareness raising, the use of email to accidentally share information and phishing attacks continue to give cause for concern.

4. Subject Access Requests (SAR)

No subject access requests were received.

5. Right to Erasure

No rights to erasure requests were received.

Evaluation on Functionality of the Audit Committee

1 You and your fellow Board/Committee members' role and contribution							
Using the scale provided please answer the following questions by ticking the box that most closely represents your opinion							
<ul style="list-style-type: none"> Members have a sound understanding of the scope and terms of reference of the Board of Management? 							
Strongly Agree	<input type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>	Strongly Disagree	<input type="checkbox"/>
<ul style="list-style-type: none"> There is a sufficient level of knowledge and understanding of the role and work of the Board? 							
Strongly Agree	<input type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>	Strongly Disagree	<input type="checkbox"/>
<ul style="list-style-type: none"> Individual members contribute well to the work of the Board of Management? 							
Strongly Agree	<input type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>	Strongly Disagree	<input type="checkbox"/>
Please provide any comments you would like to make on individual Committee members' contribution							
2 Chair's Role							
Would you agree that the Chair leads the Committee effectively in that:							
<ul style="list-style-type: none"> They focus on the Committee's priorities and respond to the challenges presented? 							
Strongly Agree	<input type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>	Strongly Disagree	<input type="checkbox"/>
<ul style="list-style-type: none"> They facilitate participation and encourage constructive debate including the viewpoint of others? 							
Strongly Agree	<input type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>	Strongly Disagree	<input type="checkbox"/>
<ul style="list-style-type: none"> They bring together a constructive and workable plan of actions from the Board debate? 							
Strongly Agree	<input type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>	Strongly Disagree	<input type="checkbox"/>
<ul style="list-style-type: none"> They ensure that actions identified are completed satisfactorily by the agreed dates? 							
Strongly Agree	<input type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>	Strongly Disagree	<input type="checkbox"/>
<ul style="list-style-type: none"> They demonstrate appropriate leadership for different situations? 							
Strongly Agree	<input type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>	Strongly Disagree	<input type="checkbox"/>
Please provide any comments you would like to make on the Chair's role and effectiveness							
3 Audit Committee's role and responsibilities							
The Audit Committee's key role is to give assurance to the Board of Management on the College's compliance with corporate governance requirements and good practice guidance. Are you satisfied that you/the committee							
<ul style="list-style-type: none"> Receives relevant reports to ensure that appropriate systems are in place to safeguard the College's assets and to minimise the risk of fraud 							

Agenda Item: A.19.1.13

Strongly Agree		Agree		Disagree		Strongly Disagree	
<ul style="list-style-type: none"> Has sufficient expertise and knowledge to enable it to assess the College's compliance with requirements? 							
Strongly Agree		Agree		Disagree		Strongly Disagree	
Please provide any comments you would like to make on the Committee's role and responsibilities (Optional)							
4 Resources							
<ul style="list-style-type: none"> The Clerk to the Board and Minute Secretary to the Committee provide effective and appropriate advice and assistance to the Board? 							
Strongly Agree		Agree		Disagree		Strongly Disagree	
<ul style="list-style-type: none"> The Board receives appropriate and quality information and papers to support its work? 							
Strongly Agree		Agree		Disagree		Strongly Disagree	
<ul style="list-style-type: none"> The Board receives effective and appropriate support from the executive of the College effectively to progress the business of the Committee? 							
Strongly Agree		Agree		Disagree		Strongly Disagree	
<ul style="list-style-type: none"> Actions are undertaken effectively and timeously? 							
Strongly Agree		Agree		Disagree		Strongly Disagree	
5 General Assessment							
<ul style="list-style-type: none"> What are your views on the current matters of focus for the Board – are they about right/what would you look to change? 							
<ul style="list-style-type: none"> What are your views on the matters which the Board should be looking at in the future? 							
<ul style="list-style-type: none"> How can the Board's organisation and overall performance be improved? 							