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

New College Lanarkshire

Year ended 31 July 2022

Contents

mazars

Mazars LLP
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The Audit and Risk Committee
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16 May 2023

Dear Members,

Annual Audit Report – Year ended 31 July 2022

We are pleased to present our Annual Audit Report for the year ended 31 July 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented to the Audit and Risk Committee on 16 May 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me.

Yours faithfully,

DRHoose
David Hoose (May 16, 2023 13:44 GMT+1)

David Hoose
For and on behalf of Mazars LLP

1. Executive Summary

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of New College Lanarkshire ('the College') for the year ended 31 July 2022 and forms the basis for discussion at the Audit and Risk Committee meeting on 5 December 2022.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice ('the Code') issued by Audit Scotland. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions;

Opinion on the financial statements	We have issued an unqualified opinion, without modification, on the financial statements. Our audit opinion is included in the draft auditor's report in Appendix B
Opinion on regularity	We have issued issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.
Opinion on other requirements	We have issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely, that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	We concluded as follows against the financial sustainability and governance and transparency wider scope dimensions: • Financial Management; The Lanarkshire Board has effective arrangements in place, including budgetary control, that help Board members scrutinise finances for each College in the Region; • Financial sustainability; The College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over the medium to longer term remains a significant risk. • Governance and transparency conclusion; The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management. As a Regional Strategic Body, the

	Lanarkshire Board continues to have oversight responsibilities of their assigned college. • Value for Money conclusion; There is continued impact on the performance of the College as recovery from Covid-19 and the wider social and economic environment challenges are faced by the College and the sector. In New College Lanarkshire this is identified in KPI data such as delivery of credit targets and success outcome rates. There is the risk that the evolving climate surrounding Covid-19 may result in a changing appetite around how students access learning that may require the College to consider its performance delivery model. Notwithstanding the impact of Covid-19 in the year, we consider New College Lanarkshire has an effective performance management framework in place that supports progress towards the achievement of value for money.

Status of our audit work

We have completed our audit work on the financial statements and wider scope work for the year ended 31 July 2022.

Internal control recommendation and misstatements

We did not identify any significant control weaknesses during our audit and have not raised any internal control recommendations. There were two recommendations from prior years to provide an update on.

Section four outlines the misstatements noted as part of our audit at the time of issuing this report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum on 16 May 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever changing business needs. Our aim is to add value to New College Lanarkshire through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making, and more effective use of limited financial resources. We have met the College requests for a hybrid audit approach with audit work performed both onsite and remotely.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set materiality at the planning stage of the audit at £1,195,000 using a benchmark (2%) of total expenditure. Our final assessment of materiality, based on the draft financial statements is £1,233,000 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	1,195	1,233
Performance materiality	956	986
Trivial threshold for errors to be reported to the Audit Committee	35	37

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The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgements and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements

We consider materiality whilst planning and performing our audit base on quantitative and qualitative factors.

Performance materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherence risk level assessed. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality. This assessment has not changed during the audit process.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

2. Audit of the financial statements

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgment

As part of our planning procedures, we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although our report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process, and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum

Management override of controls	**Description of the risk** In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk by performing the following audit work: • Consideration of accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Review of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Satisfactory assurance has been gained in respect of the presumed risk of management override of controls. We have no matters to report.

Revenue recognition	**Description of the risk** There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding. The presumption is able to be rebutted, which we have done for the College's grant income, as it carries very low inherent risk of fraud or error in its recognition. However, the risk does apply to non-grant income generated by the College.
	How our audit addressed this area of management judgement We addressed this risk by performing the following audit work: • Review of the design and implementation of controls management has in place to ensure income is recognised in the correct period; • Review of cash receipts around year end to ensure they have been recognised in the appropriate year; and Consideration of the judgements made by management in determining when grant income is recognised.
	Audit conclusion Satisfactory assurance has been gained in respect of the presumed risk of error in revenue recognition. We have no matters to report.

Expenditure recognition

Description of the risk

For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations.

The pressure to manage expenditure to ensure that budgeted outcomes are achieved increases the risk surrounding fraudulent reporting of expenditure.

How we addressed this risk

We addressed this risk by performing the following audit work:

- Review of the design and implementation of controls management has in place;
- Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the appropriate year;
- Testing material year end payables, accruals and provisions; and

  Reviewing judgements about whether the criteria for recognising provisions are satisfied.

Audit conclusion

Satisfactory assurance has been gained in respect of the risk of error in expenditure recognition. We have no matters to report

Key Areas of Management Judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

Valuation of land and buildings	**Description of the area of focus** The College holds land and buildings with a net book value of £131.4m as at 31 July 2022 and the Region net book value total of £182.7m. In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five year period. As the external valuation was performed at 30 July 2020 for New College Lanarkshire and 31 July 2021 for South Lanarkshire College, no revaluation is planned at either college in the current year. Both college policies meet the requirement of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value. Each college is required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date. Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements.
	How our audit addressed this area of management judgement We have performed a range of substantive procedures including: • Review of management's assessment as to whether the value still reflects the prior year valuation; • Review of the reconciliation between the College's asset register and general ledger; and • Consideration of the College's impairment review process for land and buildings.
	Audit conclusion Satisfactory assurance has been gained in respect of the valuation of land and buildings

Valuation of pension liabilities	**Description of the risk** The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme. The College's share of the SPF's underlying assets and liabilities is identifiable and is recognised in the accounts. Given the scale of the liability recognised, a misstatement in the reported position could be material to the financial statements.
	How our audit addressed this area of management judgement We have performed a range of substantive procedures including: • Consideration of the arrangements put in place, including the controls, for making estimates in relation to pension entries in the financial statements; and • Consideration of the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts
	Audit conclusion Satisfactory assurance has been gained in respect of the valuation of the College's share of the Strathclyde Pension Fund.

Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2021/22 and were appropriately tailored to the College's circumstances.

Draft consolidated financial statements and annual report were received as planned during fieldwork. The draft consolidated financial statements and annual report were of a good quality.

Producing good quality audit working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers provided for audit were of a good standard and staff were responsive to our requests during the audit.

Significant matters discussed with management

At 31 July 2022 the College's share of the Strathclyde Pension Fund was recorded as a notional surplus as the value of the defined benefit obligation was less than the fair value of the plan assets at that date, meaning that the pension liability usually recorded is now a pension asset. We have had discussions with management as to the most appropriate accounting treatment and disclosure of the pension asset.

During the course of the audit, the financial position of the College changed resulting from a late announcement from the Scottish Funding Council (SFC) and the College seeking clarification on the announcement that declared that Colleges/Regions who had not met their credit targets could use a 2% tolerance for missed credit targets for core plus deferred credits combined. This resulted in the College being able to release around £819k of a credit provision that was intended to be returned to SFC, into income. The impact has increased income but the reported adjusted operating position has remained as a deficit as at 31 July 2022.

No other significant matters arose during the course of the audit.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full cooperation of management. The draft accounts, working papers and annual report were all provided in line with the agreed timetable which included the receiving of a final draft of the Governance Statement following the finalisation of South Lanarkshire College's Governance Statement. We do not consider there to have been any significant delay to the New College Lanarkshire audit and the later than typical signing of the accounts is entirely a consequence of the delay in finalisation of South Lanarkshire College's (the assigned college) completion.

We would like to express our thanks to management and college staff for their cooperation throughout the audit.

3. Internal Control Recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist of improvements that could be made.

We did not identify any significant control weaknesses during our audit and have raised no internal control recommendations. Our follow up of recommendations raised in the 2020/21 audit are below:

Financial statement audit recommendation

Fixed asset register updates – Level 2 (medium priority) It was identified during the audit that the College required to make manual adjustments to reconcile the fixed asset register application, TechOne, and the general ledger. One of these manual adjustments related to an instance of human error when performing a previous annual update to record additions and valuation movements. This has since been corrected by management. We would recommend that updates to TechOne for aspects such as additions and valuations are made on a more regular basis, such as monthly or quarterly, to increase the users' familiarity of the system and reduce the risk of human error.
Potential effects There is a heightened risk of human error that can lead to misstatement of the accounts where manual adjustments are required. Coupled with infrequent use of functionality within the fixed asset register these adjustments could result in a higher risk of human error.
2021/22 update No subsequent issues have been noted with the fixed asset register application during the 2021/22 audit.

Wider Scope recommendation

Board and Committee meeting timetable – Level 1 (high priority)

The accountability of the Lanarkshire Board in fulfilling its responsibilities as the RSB to SLC as an assigned College is maintained and monitored through reporting to the RSB on a formal and regular basis. We recommend that the Lanarkshire Board review the governance arrangements in place to ensure that they remain effective in providing the oversight required as the RSB. This should include giving consideration to reciprocity in Chair attendance at all NCL and SLC Board Committee meetings. The Lanarkshire Board should also work with South Lanarkshire College to review the timetabled cycle of meetings to allow for effective and timely reporting by SLC to the RSB, to enable it to meet its oversight role.

Potential effects

With unsynchronised timetables, there is a risk that matters are not reported to the RSB in a timely and efficient manner. To enhance and maintain regional governance, timetables should be brought into line with each other.

2021/22 update

During the year, there has been reciprocity in Chair attendance at NCL and SLC committee meetings, with the Audit and Risk committee and Finance / Finance and Resources committee taking the lead. Other committees are now following suit.

The timetabled cycle of meetings, has on the whole, worked effectively, with only one instance of note where both the NCL and SLC ARC were scheduled to take place at the same time on the same day.

4. **Summary of Misstatements**

This section outlines misstatements identified during the course of the audit, above the clearly trivial threshold for adjustment of £37,000.

Adjusted misstatements

There was one adjusted misstatement identified during the course of the audit above the trivial threshold of £37k. This was as a result of late guidance issued by the Scottish Funding Council that allowed the College to take advantage of a 2% credit tolerance that would improve the financial position. This increased income by £819k and reduced the adjusted operating position deficit.

	SOCIE		Balance Sheet	
	Dr	Cr	Dr	Cr
	£'000	£'000	£'000	£'000
Funding body grants		819		
Amounts owed to SFC			819	
Being the adjustment to income following adoption of 2% credit tolerance				
		819	**819**	

Unadjusted misstatements

There are no unadjusted misstatements identified during the course of the audit above the clearly trivial threshold of £37,000, yet below our performance materiality of £986,000.

5. **Wider Scope**

Our approach to Wider Scope work

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

- Financial sustainability
- Financial management
- Governance and transparency; and
- Value for money

The table overleaf sets out the four dimensions of wider scope and our adopted approach.

Dimension	Description	Our approach
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively	We have considered: • the monitoring of the effectiveness of internal control arrangements • whether the College's budgetary control system is timely and accurate • whether and how the College has assessed their financial capacity and skills
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing and assessing the college's arrangements for financial planning and affordable and sustainable service delivery	We have considered: • the financial planning system in place for short, medium and long term periods • the adequacy and accuracy of financial reporting arrangements • the reasonableness of affordability assumptions made in financial planning
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review	We have considered: • The effectiveness of internal control arrangements • the appropriateness of disclosures made in the Governance Statement • whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met
Value for money	Value for money concerns using resources effectively and continually improving services	We have considered: • the College's evidence of providing value for money • the focus on improving value for money and the pace of change at the College.

Financial management

Dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion

The Lanarkshire Board has effective arrangements in place, including budgetary control, that help Board members scrutinise finances for each College in the Region.

Financial performance

FE/HE SORP position

	Region 2021/22 £'000	Region 2020/21 £'000	College 2021/22 £'000	College 2020/21 £'000
Operating income	79,076	75,418	57,019	53,339
Staff costs	(64,000)	(62,193)	(46,432)	(45,169)
Operating expenditure	(22,920)	(20,185)	(17,558)	(15,787)
Operating Surplus/(Deficit) for the year (FE/HE SORP basis)	**(7,844)**	**(6,960)**	**(6,971)**	**(7,617)**

The table above shows the financial performance of the College and the Region for the last two academic years, under the requirements of the FE/HE SORP.

The initial forecast for the College was income of £58.7m, staff costs of £42.8m and other expenditure of £18.7m with a net operating deficit of £2.7m being forecast.

During the year, the College failed to achieve certain aspects of its credit target. There continues to be challenges throughout the sector in achievement of credit targets while recovering from the impact of Covid-19 and the wider social and economic environment now being faced. As a response to these challenges the SFC allowed for a 2% tolerance in achievement of core and deferred credit target combined. This has allowed for the College to minimise the impact of the missed credits to College Foundation Apprenticeship Funding (FA) and to National Transition Training Funding (NTTF) aspects.

The actual staff costs incurred includes £3.7m relating to defined benefit pensions costs. These costs are unable to be budgeted and reflect an accounting adjustment that is required following the pension valuation performed at year end. The further difference in actual staff costs compared to budget is mainly associated with the final pay award settlement for 2021/22 being higher than the original Public Sector Pay Policy. In addition, the College has incurred substantial voluntary severance costs during the year as part of their efficiency savings program.

Other expenditure has achieved a favorable outcome against budget with cost savings able to be made with reduced presence on campus of both students and staff with blended learning continuing in 2021/22.

Adjusted operating position

The table above sets out the financial position in accordance with SORP requirements. The following table reflects the 'adjusted operating position' as required by the Accounts Direction issued by the Scottish Funding Council. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions. Full details of the adjustments included are shown, as required, in the Performance Report within the Annual Report and Financial Statements.

	Region 2021/22 £'000	Region 2020/21 £'000	College 2021/22 £'000	College 2020/21 £'000
Surplus/(Deficit) before other gains and losses	**(7,844)**	**(6,960)**	**(6,971)**	**(7,617)**
Add back				
• Depreciation (net of deferred capital grant release)	1,588	2,108	1,034	1,814
• Impairment of Assets on Revaluation	-	61	-	61
• Pension adjustment – FRS 102 staff cost adjustment	4,856	4,249	3,693	3,371
• Pension adjustment – net interest cost	467	518	366	415
• Non-cash pension adjustment – early retirement	78	(59)	90	(64)
• Donations to Arms-Length Foundation	500	-	-	-
SFC declared adjusted operating surplus/(deficit)	**(355)**	**(83)**	**(1,788)**	**(2,020)**

The Accounts Direction issued by the SFC for 2021/22 requires Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off.

The table above shows that once the non-cash and other applicable adjustments are made, the College and the Region made a deficit in the current year.

Impact of depreciation budget

The Statement of Comprehensive Income and Expenditure is prepared under the FE/HE SORP, which does not permit the inclusion of the non-cash budget for depreciation. Colleges may show a deficit equivalent to net depreciation as a result of having to meet Government accounting rules

	Region 2021/22 £'000	Region 2020/21 £'000	*College 2021/22 £'000*	*College 2020/21 £'000*
Operating Surplus/(Deficit) for the year (FE/HE SORP basis)	**(7,844)**	**(6,690)**	**(6,971)**	**(7,617)**
Add: Depreciation budget for government funded assets (net of deferred capital grant) for the academic year	1,060	1,060	863	863
Operating surplus/(deficit) on Central Government accounting basis	**(6,784)**	**(5,900)**	**(6,108)**	**(6,754)**

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements in place at the College. Our work consisted of a review of budget monitoring reports and committee papers along with attendance at committees, Overall, we consider that the Board of Management obtains regular and timely financial information that reflects the actual financial position.

We note that budget reports are produced on a timely basis and considered by the appropriate committee throughout the year. Budget reports and forecasts were appropriately updated based on prudent assumptions, there was considered to be no unreasonable movements throughout the quarterly forecasts and budgets considering the ongoing impact of the recovery from the Covid-19 pandemic.

The financial position of South Lanarkshire College is reported regularly to the Lanarkshire Board, through provision of approved minutes and reports and verbal updates.

Monitoring reports are included on the agenda of every Finance committee. A review of these minutes and reports to the Board demonstrated effective challenge of the College financial position by members. The Finance Committee is attended by representatives from SLC, generally the Principal, Head of Finance and Financial Accountant. At each meeting minutes and papers from the SLC Finance Committee were presented and noted, following their approval by the SLC Board. During the year the Chair of the NCL Finance Committee has also attended the SLC Finance Committee and vice versa.

We note that consolidated regional financial information is not produced regularly throughout the year and never has been. The Board of Management consider that there are insufficient resources for this to be provided and is not required to enable them to monitor performance on an ongoing basis. While acknowledging that the annual consolidated regional financial statements are important to provide an overall view of the regional position, management and those charged with governance are content that they do not require financial information on a regional basis during the year to inform decision making or risk assessment.

Overall, we consider that the Board of Management obtains financial information that reflects the actual financial position of New College Lanarkshire and South Lanarkshire College, to fulfil their role as Regional Strategic Body.

Internal controls

As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have also considered the work of internal audit, from individual reviews of financial systems and their annual audit opinion on the control framework in place at the College. We also consider the regional assurance statement prepared by internal audit that includes details of internal audit work performed at South Lanarkshire College by their internal auditor.

We conclude that the processes and controls in place at the College are operating effectively. The College has all the expected control, risk, performance and financial arrangements in place. There are a series of regularity documents including standing orders, articles of governance, code of conduct and financial regulation intended to ensure regularity of transactions.

Prevention and detection of fraud and irregularity

Management and the Audit and Risk Committee, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We have a responsibility to review the College’s arrangements for the prevention and detection of fraud. Our audit work was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the arrangement in place to be satisfactory and identified no material misstatements resulting from fraud or irregularity.

Financial Sustainability

Dimension

Financial sustainability extends the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the college's arrangements for financial planning and affordable and sustainable service delivery.

Our conclusion

New College Lanarkshire has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over the medium to longer term remains a significant risk.

Identified significant risks to our wider scope work

As part of our planning procedures we considered whether there were significant risks that would impact on any of the four areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope and how we addressed the risk below.

Financial sustainability	**Description of the risk** Our 2020/21 Annual Audit Report highlighted that the College was predicting a future funding gap for 2022/23 onwards and concluded that "sector-wide funding constraints and uncertainties remain at this point and therefore we consider that there is a significant risk to the College's financial sustainability." Since that time the actual results for the College have become known with an adjusted operating deficit of £1,788k incurred where previously it was estimated the College would break-even. This is mainly due to movements in pay expenditure that were unknown at the time original forecasts were prepared and loss of some credit income as well as a significant voluntary severance program. The increased staff costs will further impact the future funding gap, thus, we consider that there is a risk that the College may not be financially sustainable without additional cost cutting measures or further financial support from the SFC.
	How we addressed the risk We have addressed the risk by considering: • the forecast financial position in the financial forecast return (FFR) submitted to the SFC; • the financial and resource implications of any capital works required to be undertaken by the College; • alternative plans being considered by the College to ensure a balanced budget is achieved; and

• the financial reporting arrangements in place at the College

Wider scope conclusion

The College has made good progress in achieving operational savings over the last few years and as such notwithstanding one-off or unexpected events is able to forecast a break-even position for the next financial year. However, the College is faced with an unprecedented challenge of managing its costs and credit target delivery over a period where there is much uncertainty surrounding the wider social & economic climate and future funding levels from SFC. There is a risk that if additional funding is not made available from the SFC to the College to offset increasing costs, such as pay and utilities, that the College may be unable to make any further efficiency savings or cut further costs and will exhaust its remaining resources during 2023/24 and as such be unable to achieve financial sustainability.

Financial planning

This year, as in the prior year, the College has been requested to produce a five-year Financial Forecast Return (FFR) to the SFC.

There is no requirement for submission of a Regional FFR and therefore a summary of New College Lanarkshire's five-year forecast is included in the table below.

	Budget 2022/23 £'000	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000	Forecast 2025/26 £'000
Total income	60,847	60,622	60,452	60,327	60,232
Staff costs	42,256	42,684	43,538	44,408	45,297
Total other expenditure	19,713	20,049	20,348	20,653	20,964
Operating surplus/(deficit) before other gains and losses	**(1,122)**	**(2,111)**	**(3,434)**	**(4,734)**	**(6,028)**
Total depreciation net of deferred capital grant release	1,138	1,138	1,138	1,138	1,138
Adjusted operating result	**16**	**(973)**	**(2,296)**	**(3,596)**	**(4,890)**

Using the assumptions set by the SFC to be reflected in the FFR, the College is forecast to make a small surplus adjusted operating result position in year 1. This demonstrates that in the short-term, if the College is able to deliver its credit target and thus achieve the budgeted income, it should be able to operate effectively within their resources. From years 2 onwards however, the College forecasts a deficit of £973k in year 2 growing to £4,890 by year 5 – a cumulative deficit of £11.739m over the period of the FFR. Therefore, if there are no revisions to funding in the period, the College will require to identify further efficiencies and areas where costs can be cut.

The College recognises that there are significant risks associated with the medium-term forecasting, a major factor of this being the Colleges ability to achieve credit target to secure its annual funding.

This risk is exacerbated the ‘flat cash’ assumption required by SFC as part of the FFR model with the expectation of annual cost savings of 3% are achieved. The College has previously implemented a business plan which resulted in significant efficiencies being achieved in recent years, which was mainly through restructure and implementation of voluntary severance schemes, funded by the SFC. Included in the 2022/23 budget is unfunded costs of £409k towards the final stage of such schemes, as across the sector the SFC is no longer funding voluntary severance. Putting aside the funding of a scheme, to apply further voluntary severance schemes would raise serious concerns around the College’s ability to deliver the required credit target and improvements in KPI areas. There are further significant concerns around the College being able to achieve any further operational savings during such an unprecedented time of high economic inflation, rising utility costs and associated pressures on staff pay awards through national bargaining.

As part of the FFR reporting, the College has considered its cash flow for the 5 year period. Based on an assumption of the College being able to draw down its Grant in Aid Funding in advance, cash resources would be expected to be depleted during 2023/24, based on current income and expenditure forecasting. There is therefore a risk that if advance funding is not available, resources will be exhausted earlier than anticipated in the current FFR.

The FFR was considered by the Board in October 2022 and whilst the budget for 2022/23 was agreed, the remaining periods of the FFR were not signed off by the Board before submission to the SFC. The FFR was submitted to the SFC with the explanation that the Board had not approved the final four years of the FFR due to the level of deficit projected and that structural funding assistance from the SFC would be required to reduce the level of deficit as savings options at the College are now limited after many years of delivering efficiency savings.

Governance and Transparency

Dimension

Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review.

Our conclusion

The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management. As a Regional Strategic Body the Lanarkshire Board continues to have oversight responsibilities of their assigned college which have been appropriately discharged during the year.

Governance arrangements

Our work in this area has considered the overall governance and scrutiny arrangements in place for the Region, reviewed the financial and performance reporting to the Board, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also considered the governance arrangements set out in the Financial Memorandum agreed between South Lanarkshire College and the Lanarkshire Board in January 2016 and their effect and implementation in practice.

We have attended Audit and Risk Committees of the Lanarkshire Board ('the Board') and South Lanarkshire College during the year.

The Board currently consists of 22 members, 13 male and 9 female. In the current year the Board has not maintained a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Act 2018.

The College does aim to have equality and diversity in its board representation, and this is considered actively at each round of recruitment alongside the strengths and skills required for the role to ensure the Board has sufficiently qualified and skilled members. It can be difficult to ensure an equal gender split of members depending on the applications for the vacancies the Board receive at the time of vacancy.

As is standard practice, the Board is reported to by Committees of the Board. Committees meet generally four times a year. The minutes of these meetings are considered as part of the agenda at the immediately following Board meeting. The key Committees are set up in line with the agreed terms of Reference for each. Appropriate College officers attend committees and present reports as required. Committee meeting agenda items are supported by detailed reports each with a cover sheet describing the role of the committee in respect of the report e.g. For Information, For Action etc. so that members are aware of their role.

There were a number of governance issues arising at South Lanarkshire College, the assigned college to New College Lanarkshire as Regional Strategic Body during the 2020/21 year with continued development and progress during 2021/22. Full details can be found in our Annual Audit Report of South Lanarkshire College.

The Lanarkshire Colleges Order requires that the Chair, Principal, two staff members and one student member of the South Lanarkshire College (SLC) Board are also members of the Lanarkshire Board. This arrangement has been in place for the full 2021/22 year. During the year, SLC appointed another member of their board as the Chairing member and two Acting Principals (one from December 2021 to April 2022, one from April 2022 to March 2023) to cover a period of absence of the substantive Chair and Principal. The SLC Chairing member and Acting Principals have therefore become members of the RSB in this interim period. There is no requirement set in the Order for members of the Lanarkshire Board to become members of the SLC Board, or to attend Board meetings, but we note that the Chair of the Lanarkshire Board has been appointed as a member of the SLC Board.

In prior years, in addition to the SLC membership of the RSB, there was SLC attendance at all sub-committees of the RSB. However, in anticipation of an imminent dissolution of the regional arrangements in 2020/21, this practice ceased. Following the governance issues at SLC, this practice was reinstated during 2021/22. There was also the welcome addition of Chairs of both ARCs have being invited to attend and actually attending each other’s meetings. This practice has also been adopted for the Finance and Curriculum / Curriculum and Student Affairs committees. In addition, the SLC Acting Principal and the Head of Finance are invited to attend meetings of the RSB ARC.

Governance Statement

As part of our audit we have read the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework

The governance statement confirms New College Lanarkshire’s compliance with the 2016 Code of Good Governance for Scotland’s Colleges.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. We also consider whether the governance statement has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by Wylie & Bisset.

Internal audit have attended Audit Committees throughout the year and have produced reports to support the Annual Internal Audit Opinion. They have also produced a regional assurance statement. At the time of writing we await both reports.

Transparency

Transparency means that service users and the public have access to understandable information about how the College is making decisions and using its resources. There is a commitment to transparency, with the minutes and papers of the Board of Management and key committees being available on the website.

Value for Money

Dimension

Value for money concerns using resources effectively and continually improving services.

Our conclusion

There is continued impact on the performance of the College as recovery from Covid-19 and the wider social and economic environment challenges are faced by the College and the sector. In New College Lanarkshire this is identified in KPI data such as delivery of credit targets and success outcome rates. There is the risk that the evolving climate surrounding Covid-19 may result in a changing appetite around how students access learning that may require the College to consider its performance delivery model.

Notwithstanding the impact of Covid-19 in the year, we consider New College Lanarkshire has an effective performance management framework in place that support progress towards the achievement of value for money.

Performance management

The College delivered its core Regional Outcome Agreement (ROA) target credits however some individual credit targets such as FA (Foundation Apprenticeships) and National Transition Training Funding (NTTF) were not achieved. A financial deficit was incurred in the year, highlighting the continued financial difficulties the College faces.

There is close monitoring of the delivery of the ROA and financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget to be appropriately managed. Through this management of the 2021/22 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected given the circumstances of the year.

The College and Region credit targets and results are detailed in the table below.

Credit	NCL Target	NCL Actual	SLC Target	SLC Actual	Region Target	Region Actual
Core	129,020	129,020	46,029	46,029	175,049	175,049
ESF	3,332	3,332	3,140	3,166	6,472	6,498
Other*	3,787	471	1,535	786	5,322	1,257
Total	**136,139**	**132,823**	**50,704**	**49,981**	**186,843**	**182,804**

*Other includes Deferred, FA and NTTF credits

Regularity

As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements. Regular expenditure and income is that which has been incurred / obtained in line with guidance issued by the Scottish Ministers and the terms and conditions of funding of the Scottish Funding Council.

The College has arrangements to monitor the requirements of the Scottish Funding Council, Audit Scotland and other regulatory or advisory bodies to ensure it complies with the terms and conditions of funding including regular reporting of financial and operationalperformance to the Board of Management and its committees.

Our review found an effective control environment exists over regularity of expenditure and receipts. No instances of non-compliance with Scottish Funding Council terms and conditions were noted.

6. Our Fee

Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Audit Strategy Memorandum, presented to the Audit Committee on date. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	Proposed fee 2021/22	Final fee 2021/22
Auditor remuneration	44,680	44,680
Pooled costs	2,280	2,280
Contribution to Audit Scotland costs	2,040	2,040
Additional audit fee	0	0
Total Fee	**49,000**	**49,000**

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

Appendix A

Draft Management Representation Letter

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the College's accounts for the period ended 31 July 2022.

We acknowledge as members of the Board of Management our responsibility for ensuring:

a. the financial statements are free of material misstatements including omissions;
b. that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2022;
c. all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records;
d. all other records and related information, including minutes of all management meetings, have been made available to you;
e. the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by the Scottish Funding Council (SFC) under the terms of the Further and Higher Education (Scotland) Act 1992; and
f. compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

Wylie & Bisset acted as Internal Auditors to the College during the year. All reports issued to the College and our responses to them have been made available to you.

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

The College has no liabilities or contingent liabilities other than those disclosed in the accounts.

All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.

The College has not contracted for any capital expenditure other than as disclosed in the accounts.

The College has satisfactory title to all assets and there are no liens or encumbrances on the College’s assets, except for those that are disclosed in the financial statements.

We are not aware of any irregularities, including fraud, involving existing management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.

We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.

We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

We confirm that we have carried out an assessment of the potential impact of the Covid-19 pandemic on the College, including the impact of mitigation measures and uncertainties, and that the disclosure in the Performance Report fairly reflects that assessment.

We confirm that no unadjusted misstatements have been brought to our attention.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

………………………………………….. Chair of Board

…………………………………………….. Principal

Appendix B

Draft Audit Report

Independent auditor’s report to the Board of Management of New College Lanarkshire the Auditor General for Scotland and the Scottish Parliament

Reporting on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of New College Lanarkshire and its group for the year ended 31 July 2022 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated and College Statement of Comprehensive Income and Expenditure, Consolidated and College Statement of Changes in Reserves, Consolidated and College Balance Sheet, and the Consolidated Statement of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college and its group as at 31 July 2022 and of its deficit for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for opinion
We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 31 May 2016. The period of total uninterrupted appointment is six years. We are independent of the college and its group in accordance with the ethical requirements

that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the college and its group. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the college and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the college and its group. However, we report on the college's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Board of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the ability of the college and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the college and its group.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the college and its group is complying with that framework;

- identifying which laws and regulations are significant in the context of the college and its group;

- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the college's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on regularity of expenditure and income

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on the audited part of the Remuneration and Staff Report

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Other information

The Board of Management is responsible for other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on the Performance Report and Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and

- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

David Hoose, for and on behalf of Mazars LLP

100 Queen Street
Glasgow
G1 3DN

Date

David Hoose is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Appendix C

Independence

As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.