

# Forth Valley College

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

**6 December 2019**



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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Forth Valley College (the College) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the College and is made available to the Auditor General for Scotland and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients

## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# Key Conclusions from our 2018/19 audit

<p><b>Financial statements: Audit Opinion</b></p>	<p>We have concluded our audit of the College's financial statements for the year ended 31 July 2019. We identified no unadjusted or adjusted audit differences arising from the audit.</p> <p>We concluded the other information subject to audit, including parts of the Remuneration Report and the Annual Governance Statement were appropriate.</p>	<p>G R E E N</p>
<p><b>Presentation and disclosures</b></p>	<p>The draft financial statements and supporting working papers were of a high quality and were received at the start of the audit in line with the agreed timetable.</p> <p>We were satisfied that the Annual Governance Statement materially reflects the requirements of the Scottish Funding Council's 2018/19 Accounts Direction.</p>	<p>G R E E N</p>
<p><b>Wider Scope: Financial Sustainability</b></p>	<p>The College has undertaken a thorough process to develop the Financial Forecast Return, including review and challenge of key assumptions. The College anticipates that it will deliver an underlying surplus of £600,000 over the period to 2023/24. This assumes the delivery of significant savings totalling £2.0 million from 2020/21 to 2023/24.</p> <p>While the College can demonstrate that plans are in place to deliver a financially sustainable future, there are significant external risks that may continue to impact the financial planning and ability to deliver savings.</p>	<p>A M B E R</p>
<p><b>Financial Management</b></p>	<p>We were satisfied that financial reporting was clear and consistent throughout the year. The College reported a comprehensive expenditure of £6.3 million and an adjusted operating surplus after removal of non-cash accounting adjustments of £1.2 million.</p> <p>The College has an established budgeting framework which includes presentation of financial updates to the Board and Finance Committee.</p>	<p>G R E E N</p>
<p><b>Governance and Transparency</b></p>	<p>The key features of good governance are in place and operating effectively.</p> <p>The College continues to embed its risk management arrangements and we concluded that the College's preparations for EU withdrawal appear appropriate.</p>	<p>G R E E N</p>
<p><b>Value for money</b></p>	<p>The College has a strategic plan in place for the period 2017-2022, "making learning work for all". The College has continued to report its performance against its strategic plan annually on its website as well as including key measures within the financial statements and Board and committee papers published on the website.</p> <p>We have no matters to report in respect of the College's arrangements around procurement or staff severance.</p>	<p>G R E E N</p>



# Introduction

## Our key contacts:

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## Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000 (“the Act”), the Auditor General for Scotland appointed EY as the external auditor of Forth Valley College (“the College”) for the five year period 2016/17 to 2020/21.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both members of the Board of Management and the Auditor General for Scotland, and is presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the College. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our Annual Audit Plan.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the College employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the College in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding the College’s arrangements.

## Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as the College’s external auditor.

## Scope and Responsibilities

The Code sets out the responsibilities of both the College and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Audit Committee on 23 May 2019.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2018/19 financial statements. We can confirm that we carried out our audit in accordance with the plan. Minor changes were made to the level of materiality that we applied during the audit, to reflect the 2018/19 draft financial statements.

Overall Materiality

Tolerable Error

Reporting threshold

£0.7 million

£550,000

£36,000

2.0% of the College's gross expenditure

Materiality at an individual account level

Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level of £1,000 to the audited section of the Remuneration Report, and we apply a judgemental materiality to any severance payments made to staff in the year to ensure compliance with the requirements of the SFC's Accounts Direction. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

### Financial statement audit

We are responsible for conducting an audit of the College's financial statements. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; relevant Auditing Standards and applicable Practice Notes issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

Our findings are summarised in Section 2 of this report.

### Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

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

Our findings against each dimension are summarised in Section 3 of this report.



# Financial Statements audit

## Introduction

The annual financial statements provide the College with an opportunity to demonstrate accountability for the resources at its disposal, and report on its overall performance in the application of those resources during the year. We are responsible for conducting an audit of the financial statements of the College and provide an opinion on the financial statements as to:

- ▶ whether they give a true and fair view of the state of affairs of the College as at 31 July 2019 and the deficit for the year then ended;
- ▶ whether they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ whether they 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).

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

Our Annual Audit Plan was considered by the Audit Committee on 23 May 2019. The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- ▶ the risk of fraud in revenue and expenditure recognition (significant risk); and
- ▶ misstatements due to fraud or error (fraud risk).

The plan also highlighted two areas of higher inherent risk within the 2018/19 financial statements:

- ▶ Valuation of Property, Plant and Equipment; and
- ▶ Pension Liability and Asset Valuation.

### **Compliance with financial reporting requirements**

As part of our oversight of the College's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared, predominantly by the finance team, to support the audit.

The financial statements were prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustees Investment (Scotland) Act and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

### **Presentation and quality of financial statements**

Management provided draft financial statements at the start of the audit, in line with the agreed timetable. The financial statements were complete and of a high quality, supported with appropriate working papers. The financial statements had been updated for the new requirements as outlined in the SFC's 2018/19 Accounts Direction for colleges.

### **Audit outcomes**

We identified no unadjusted or adjusted audit differences arising from the audit that breached our reporting threshold.

Our overall audit opinion is summarised on the following page.

# Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
<p><b>Financial statements</b></p> <p>The financial statements provide a true and fair view of the state of affairs of the College at 31 July 2019 and of the deficit for the year then ended</p> <p>The financial statements are prepared in accordance with the financial reporting framework</p>	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable.</p> <p>We have considered the financial statements against the financial reporting requirements, and additional guidance issued by the SFC and Audit Scotland.</p>	<p>We issued an unqualified audit opinion on the 2018/19 financial statements for the College.</p>
<p><b>Going concern</b></p> <p>We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting</p>	<p>We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis.</p> <p>Wider scope procedures, including financial forecasts are considered as part of our work on financial sustainability.</p>	<p>We have no matters to report.</p>
<p><b>Other information</b></p> <p>We consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit</p>	<p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> <li>▶ Review of committee minutes and papers, regular discussions with management, our understanding of the College and the sector.</li> </ul>	<p>We are satisfied that the annual report materially meets the core requirements set out in the Accounts Direction.</p>
<p><b>Report on regularity of income and expenditure</b></p> <p>We are required to consider whether in all material respects the income and expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers</p>	<p>Our procedures include:</p> <ul style="list-style-type: none"> <li>▶ Understanding the applicable enactments and guidance issued by the Scottish Ministers</li> <li>▶ Performed detailed testing of income and expenditure testing to ensure transactions are in line with enactments and guidance</li> </ul>	<p>We are satisfied that in all material respects income and expenditure are regular.</p>
<p><b>Matters prescribed by the Auditor General for Scotland</b></p> <p>Audited part of Remuneration Report has been properly prepared.</p> <p>The Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.</p>	<p>We are required to report on whether the sections of the Remuneration and Staff Report, and Accountability Report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.</p>	<p>We have no matters to report.</p>
<p><b>Matters on which we are required to report by exception</b></p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>▶ adequate accounting records have not been kept; or</li> <li>▶ the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>▶ we have not received all the information and explanations we require for our audit</li> </ul>	<p>We have no matters to report.</p>

# Significant and fraud audit risks

## 1. Risk of Fraud in Income and Expenditure Recognition

As we outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

In our audit planning, we rebutted the risk of improper recognition of Scottish Funding Council (“SFC”) core grant funding because there is no judgement in respect of this income stream. With regards to expenditure, we rebutted the risk of improper recognition of payroll expenditure. The charts below highlights how our assessment impacts our testing strategy on the College’s financial statements.

Exhibit 1: Key components of the College’s income and expenditure



Source: 2018/19 Financial Statements: Statement of Comprehensive Income and Expenditure

Our testing has not identified any material misstatements relating to revenue and expenditure recognition.

### Specific procedures relating to significant risks

We undertake specific, additional procedures over income and expenditure streams where we identified a significant risk, including:

- ▶ Review and challenge management’s accounting estimates over revenue or expenditure recognition for evidence of bias.
- ▶ Review transaction listings for individually material balances as well as unusual items to agree to supporting documentation and third party evidence.
- ▶ Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage of testing across all balances.
- ▶ Review and test income and expenditure around the financial yearend to ensure it is accounted for in the correct financial period.
- ▶ Perform a search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.

## Our Audit of Other Income and Expenditure

We undertook walkthroughs in respect of the processes management has established to account for material income and expenditure streams. We obtained data downloads from the College's financial ledger to allow us to trace key transactions from initiation to recording in the financial statements.

### Other audit procedures: non-significant risk areas:

Our audit work on other areas, where there were no significant risks, identified no audit misstatements. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

**Scottish Funding Council income:** We agreed receipts in the year for SFC grant income to the financial ledger and SFC grant award notification. We have assessed the College's compliance with required grant requirements (such as credits achievement) and did not identify any potential clawback of funding.

**Employee expenses:** We established expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances. Our bespoke data analysers provided analysis of all payroll transactions in the year, from which we investigated and corroborated material and unusual transactions.

We have outlined our consideration of the valuation of pension assets and liabilities held by the College later in this report. In respect of all pension transactions impacting the SOCIE we agreed these journals to the underlying FRS 102 report prepared by the College's actuary.

## 2. Risk of Misstatement due to Fraud or Error

Our Annual Audit Plan recognised that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

### Our audit procedures

### Our findings

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the College's normal course of business.

We considered the risk of fraud, inquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

We have not identified any material weaknesses in controls or evidence of management override.

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit.

We identified a number of manual journals requiring further consideration using criteria we established based on our understanding of the College. All journals tested were assessed as appropriate and verified to supporting documentation.

Management disclose their assessment of the critical accounting judgements and key estimates in the financial statements. We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias.

We reviewed each estimate and concluded there was no evidence of material bias.

We are also content that the disclosures that management have made in the relevant section of the financial statements are appropriate.

Evaluate the business rationale for any significant unusual transactions.

No unusual transactions were identified outside the normal course of business.

Review of property, plant and equipment expenditure to ensure it fulfils the accounting requirements to be capitalised.

No issues were noted through testing performed.

We consider the consistency and application of accounting policies, and the overall presentation of financial information.

There are no accounting practices that materially depart from what is acceptable under the accounting framework.

# Other Inherent Risk Areas

Our Annual Audit Plan highlighted additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

## Valuation of Property Plant and Equipment

The College's PPE portfolio totals £100.9 million. Our work focused on judgements in relation to the valuation of the College's land and buildings. The valuation exercise was performed by an external valuer.

The College's estate has increased in value by £42.4 million year on year. This reflected a £6.7 million increase due to the valuation exercise performed by the College's valuers in the year in relation to the Alloa and Stirling campuses, and £35.7 million for the ongoing development of the new Falkirk campus.

### Our audit procedures

- ▶ Considered the work performed by the College's valuers around the existing estate, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Analysed the source data and made inquiries at to the procedures used by management's specialist to establish the source data as complete.
- ▶ Challenged management's assessment of the estate valuation at the year end and any indicators of impairment, including around the costs incurred around the development of the new campus sitting in assets under construction.
- ▶ Considered changes to useful economic lives as a result of the most recent valuation.
- ▶ Verified that the specialist's findings have been correctly processed in the financial statements through testing of accounting entries.
- ▶ Reviewed the College's backlog maintenance estates plans, including consideration of possible indicators of impairment of the existing estate and whether backlog maintenance expenditure in the year had been correctly accounted for as capital or revenue expenditure.

### Our findings

We reviewed the assumptions used in the valuation of land and buildings and challenged the accuracy and appropriateness of assumptions, and agreed the workings to underlying asset information.

Our testing has not identified any material misstatements relating to property, plant and equipment.

## Our audit procedures

## Our findings

### Valuation of Pension Liabilities

The College's pension fund deficit is a material estimated balance. Under the Higher and Further Education SORP (2015), the College's share of its liability in the Falkirk Council Pension Fund is disclosed on the College's balance sheet. At 31 July 2019, the College's share of the pension scheme net liability totalled £14.0 million (2017/18: £7.8 million) and the present value of the unfunded obligation in relation to early retirements agreed in previous years is £6.9 million (2017/18: £6.8 million)

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We have focused on the following areas, which are consistent with those of management:

- ▶ The reasonableness of the underlying assumptions used by the College's actuary, including those associated with recent judgements on McCloud and Guaranteed Minimum Pensions (GMP).
- ▶ Ensuring the information supplied to the actuary in relation to the College was complete and accurate.
- ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

We have liaised with the appointed auditor of the Falkirk Council Pension Fund to obtain assurances over the information supplied to the actuary in relation to the College.

We have assessed the work of the Pension Fund actuary including the assumptions they have used by utilising our in-house experts. We have assessed both the robustness of the methodology used to derive the key actuarial assumptions and the reasonableness and consistency of the assumptions underpinning such reports, using guidance available.

We performed additional testing on the College's share of the Fund pension assets at 31 July, performing roll forward procedures on its share of assets from 31 March to the College balance sheet date.

We assessed the approach taken by the actuary to account for the estimated impact of the recent rulings made around the McCloud judgement and various rulings around GMP.

We reviewed the calculation of the College's early retirement liabilities at 31 July 2019.

In calculating the scheme assets as at 31 July 2019 the actuary performs a roll forward technique using investment returns and cash flow data since the last triennial valuation. We have considered the reasonableness of the reported asset position and note that the actuary's estimated investment returns were consistent with actual investment returns for Falkirk Pension Fund.

Assumptions used by the actuary and adopted by the College are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

# Looking ahead

## **Updated Statement of Recommended practice: accounting for further and higher education 2019 edition**

The Statement of Recommended Practice (SORP): accounting for further and higher education has been updated to reflect the amendments made to FRS 102 following its triennial review in 2017. The revised SORP will be effective for financial periods beginning on or after 1 January 2019 and therefore will be applied by the College within their 2019/20 financial statements.

The triennial review was published by the Financial Reporting Council in December 2017. The majority of amendments were editorial in nature and clarified rather than changed accounting treatment. The amendments to the SORP follow a similar basis and it is not therefore anticipated that the College will be required to adopt substantive changes to accounting treatments. We do, however, anticipate that the College will be required to adopt a number of changes to disclosure requirements.

We will work with management during 2019/20 to ensure the correct application of the new requirements.

**Recommendation 1:**  
The College should conduct an impact assessment on the implementation of the revised SORP.



# Wider Scope Dimensions

## **Introduction**

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the College's arrangements for each of the wider scope audit dimensions. We apply our professional judgement to risk assess and focus our work on each of the dimensions.

## **The Wider Scope dimensions**

Financial Sustainability:

- ▶ considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

Financial Management:

- ▶ considers the effectiveness of financial management arrangements, including the adequacy of financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Governance and Transparency:

- ▶ considers the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Value for Money:

- ▶ considers whether best value can be demonstrated in the use of resources, including the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

# Financial Sustainability

The College has undertaken a thorough process to develop the Financial Forecast Return, including review and challenge of key assumptions. The College anticipates that it will deliver an underlying surplus of £600,000 over the period to 2023/24. This assumes the delivery of significant savings totalling £2.0 million from 2020/21 to 2023/24.

While the College can demonstrate that plans are in place to deliver a financially sustainable future, there are significant external risks that may continue to impact the financial planning and ability to deliver savings.

## The context for financial sustainability in the FE sector

In June 2019, Audit Scotland published their annual report on the further education sector, *Scotland's Colleges 2019*. The report provides an overview of college finances based on the latest annual financial statements and financial forecast returns. The sector reported an improved, but marginal underlying surplus in 2017/18 but the report notes a widening gap between college's income and expenditure. Twelve incorporated colleges currently forecast recurring financial deficits by 2022/23.

Scottish Government revenue funding to the sector has increased year on year since 2016/17 in real terms, but this increase has solely related to funding the costs of harmonising staff terms and conditions. This means that there has been no additional funding for cost pressures such as cost of living increases and increases in employer pension contributions.

The Scottish Funding Council's 2017 estates condition survey indicates that college buildings require urgent and significant investment. Reduced capital funding poses a risk to some colleges' ability to continue to deliver their core services in a safe environment and to invest in new technologies to generate efficiencies and enhance the student experience.

## Medium term financial strategy and plan

The College has prepared five-year financial forecasts for the period 2019 to 2024 and submitted these to the SFC in the form of the template Financial Forecast Return ('FFR'). The forecast is based on assumptions provided by the SFC in addition to College specific assumptions for areas such as other income and staff numbers. The assumptions have been subject to scrutiny by the College's senior management team and Finance Committee.

While the FFR submission process itself is robust, currently the College does not explicitly align its financial forecasts to its overall strategic or operational objectives going forward.

### Recommendation 2:

Good practice around financial planning should include alignment of financial plans to the College's overall strategy to ensure they are complimentary and that the College has sufficient resources to meet its objectives.

**Exhibit 2: The College's FFR highlights that the College is forecasting an operating surplus, after gains and losses, for the five years of the FFR period through to 2022/23.**



Source: Forth Valley College Financial Forecast Return, September 2019

As outlined above the College has forecast to make a £600,000 underlying operating surplus over the next five years. However, this factors in significant savings to be delivered over the course of the FFR, totalling £2.0 million from 2020/21 to 2023/24. These savings are largely predicted to come from the implementation of the College's "Futures Programme" which will include a full review of College operations and structures.

While we have concluded that the College's approach to financial planning is robust, a number of the most significant variables are outwith the College's control and therefore continue to present a risk that the College may be unable to deliver their FFR.

**Key Assumptions, risks and uncertainties**

The Scottish Funding Council issued guidance on the assumptions and information required from Colleges in June 2019. The guidance is developed in conjunction with sector representatives to provide guidance on key assumptions to be applied in the Financial Forecast Return to ensure that the SFC can understand the financial health of the sector as a whole.

Key FFR assumptions provided by the SFC include:

- ▶ SFC recurrent grant is based on indicative funding allocations provided by the SFC. The SFC has assumed that there are no plans to revise activity targets prior to 2022/23.
- ▶ Capital maintenance funding should be based on the final 2019/20 allocations.
- ▶ The impact of national bargaining harmonisation/job evaluation costs should be included based on data from Colleges Scotland and cost of living pay award increases should be included. The Public Sector Pay Policy should be applied.

### Key assumptions, risks and uncertainties (continued)

The College's local analysis is based on internal assumptions including:

- ▶ Delivery of all "corrective actions" to ensure the operating underlying budget remains in surplus, as outlined above.
- ▶ Continuation of income of £490,000 annually in relation to the Flexible Workforce Development Fund.
- ▶ Significant increases in apprenticeship activity and related income from 2019/20 through to 2022/23.

The College has identified the most significant risks that may impact the delivery of the FFR (Exhibit 3 below). Other risks are likely to include future potential pay increases and ability to manage non-payroll expenditure within 'flat' budgets.

#### Exhibit 3: The College has identified the key risks that pose a risk to the College's ability to achieve their financial forecast return and thus impacting their ability to be sustainable in the medium term

Risk title	Description	Risk mitigating actions
<b>SFC funding going forward</b>	SFC funding model does not address changes to the demographic models going forward. Insufficient capital and maintenance funding will significantly impact on the ability to complete life cycle maintenance as it falls due resulting in a backlog of maintenance.	The College's Leadership Management Team has commenced strategic planning sessions for the Futures Programme to address the longer term financial sustainability, including estates plans for both lifecycle maintenance and capital requirements.
<b>Other income sources going forward - apprenticeship income</b>	Forecasts assume growth in foundation and other apprenticeship income, however there are risks around the future delivery of this income.	Reduction in apprenticeships activity and income will result in resultant cost saving actions.
<b>Risk of under achievement of commercial income targets</b>	Forecasts assume growth in commercial income. This activity can be unpredictable and can be impacted by downturns in the economy.	The College is developing a five year Business Development Strategy to support commercial income growth.
<b>Staff salary and related cost pressures</b>	National bargaining has resulted in significant additional staff costs for the College. In addition the Scottish Government "no compulsory redundancy" policy places potential restrictions on being able to implement efficiencies and realign service delivery. The outcome of support staff job evaluation is unknown and there is a limited pot of funding to cover the cost. SPPA and LGPS pension schemes are becoming increasingly costly with uncertainty over increasing contributions and funding to cover these costs.	The College continues discussions with SFC on the need for additional funding to address these needs.
<b>Delivery of the College's capital plan</b>	Delays in the sale of the existing Falkirk campus could result in unbudgeted revenue costs for security etc.	A contract of sale has been negotiated and Estates Development Project team are managing this closely to ensure the sale proceeds once the move to the new campus is complete.

Source: Forth Valley College FFR June 2019

# Financial Management

We were satisfied that financial reporting was clear and consistent throughout the year. The College reported comprehensive expenditure of £6.3 million and an adjusted operating surplus after removal of non-cash accounting adjustments of £1.2 million.

The College has an established budgeting framework in place which includes presentation of financial updates to the Board and Finance Committee.

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## Financial Performance

The College reported a deficit of £1.8 million for the year (2017/18: £0.7 million). Following an actuarial loss of £4.5 million the College reported total comprehensive expenditure of £6.3 million (2017/18: £12.7 million income). The College had an operating surplus after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £1.2 million (2017/18: £1 million). An activity target of 86,018 credits was allocated to the College from the SFC which the College exceeded by 82 credits.

## Financial Monitoring

The College's 2018/19 budget was approved in June 2018 with the College budgeting for a surplus of £238,000. The College's financial performance was monitored throughout the year by management and the Finance Committee. At April 2019 a revised projected surplus of £717,000 was being forecast. Actual year end outturn on a like for like basis to budget was a £1.0 million surplus.

Financial updates are presented at each meeting of the Finance Committee with periodic updates also presented to the Board, as appropriate. We have reviewed financial updates presented during the year and evaluated the quality and quantity of content provided. Members are provided with the following key information which we consider to support members in appropriately scrutinising financial performance:

- ▶ annual budget figures;
- ▶ period forecast and actual performance;
- ▶ budget variances as both a number and percentage; and
- ▶ explanations to support significant budget movements.

The difference between the budgeted and actual surplus is the net result of a number of variances occurring and monitored through the year. The main movements were increases in HE tuition fee income and apprenticeship income, and reductions in staff salary and related costs. We are comfortable that the movements in the year were sufficiently robustly identified and monitored throughout the year and were not indicative of poor financial monitoring controls.

### **New Campus Development**

The College is currently developing its new Falkirk Campus, due to be completed in December 2019 at a forecast cost of £78 million. This is being funded through SFC grant and ALF funding. The College has agreed to dispose of the current Falkirk Campus, and expects to receive £4 million, the proceeds of which will be distributed as agreed with the Scottish Funding Council.

### **Systems of internal control**

Within the annual governance statement, the College has concluded that they have obtained assurance that the system of internal control was operating effectively during the year with no exceptions or issues identified.

Through our audit of the financial statements, we have tested the design and implementation of key controls related to areas of significant risk to the financial statements. This work has included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed. Based on the work undertaken, our work has not identified any significant weaknesses in the College's systems of internal control.

### **National Fraud Initiative (NFI)**

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The NFI exercise produces data matches by comparing a range of information held on public bodies' systems to identify potential fraud or error.

We submitted an assessment of the College's participation in the exercise to Audit Scotland in June 2019. We concluded that the College has actively participated in the NFI exercise and that it is well embedded within the College's Fraud Policy and Response Plan.

# Governance and Transparency

The key features of good governance are in place and operating effectively.

The College continues to embed its risk management arrangements and we concluded that the College's preparations for EU withdrawal appear appropriate.

## Recommendation 3:

The College should ensure board and key committee minutes and papers are published on the College website in a timely manner as part of good governance practice.

We concluded that the Annual Governance Statement meets the requirements of the Accounts Direction and is consistent with our knowledge of the College.

The College has identified one area of non-compliance with the Code of Good Governance in relation to the role of Secretary to the Board. This has been explained in the financial statements.

## Governance arrangements

The College has in place the key requirements for good governance. We consider the following to be examples of good governance:

- ▶ The Board and committee minutes set out clearly the matters considered and discussed.
- ▶ The Board has approved detailed terms of reference for its standing committees which are subject to regular review.
- ▶ We reviewed the attendance at key governance meetings and noted no significant issues with attendance or meetings that were not quorate.
- ▶ Information, including financial performance, is generally clear and concise.

In previous years we had noted that the College published Board and standing committee agendas, minutes and papers on their website in a timely manner to ensure transparency around governance arrangements. However, in 2019 this process has not been completed in the same timely manner.

## Annual Governance Statement

We reviewed the Governance Statement within the financial statements against the requirements outlined in the SFC's 2018/19 Accounts Direction. This includes the requirements to conclude on the College's compliance with the 2016 Code of Good Governance for Scotland's Colleges, or to explain any areas of non-compliance. Our consideration of the governance statement has included:

- ▶ Ensuring that the College has met all requirements of the SFC's 2018/19 Accounts Direction
- ▶ Ensuring that the content of the statement is consistent with our understanding of the College's governance arrangements and any issues identified during the year
- ▶ Ensuring that the College has performed a self-assessment of compliance with the Code of Good Governance for Scotland's Colleges and that this assessment is reflected in the Statement.

## **Risk management**

The College has an established Risk Management process. The College identifies and monitors strategic risks to the College through its strategic risk register. These risks are discussed at SMT meetings and are also brought to each meeting of the Audit Committee for scrutiny. Through 2018/19, the key strategic risks were reported to and monitored by the Audit Committee at each of their meetings. The information provided includes the consequences and gradings of risks, and progress around mitigating actions put in place by management.

## **EU withdrawal**

As in 2017/18, Audit Scotland has maintained an interest in public bodies' preparedness for EU withdrawal. We assessed the College's arrangements against three key factors, relating to the workforce, funding and regulations.

The College is aware that there continues to be a potential for disruption to operations arising from Brexit, and has taken the following actions:

- ▶ The Principal is the College's lead on Brexit and the College continues to review new information and guidance provided by bodies such as the Scottish Government and the Scottish Funding Council as it is published.
- ▶ The College has considered the financial impact of Brexit and mitigations as they are known up to the current time, and does not consider there to be significant immediate financial risk.
- ▶ An assessment has already been undertaken on the impact of the College resulting from the loss of ESF funds and in relation to the new Falkirk campus build costs.

While risks remain for all public sector bodies, we are satisfied that the College's arrangements to prepare for EU withdrawal are appropriate and informed by wider sector involvement.

## **Enquiries of those charged with governance**

During 2018/19, we formally wrote to the Chair of the Audit Committee to make inquiries around the College's governance arrangements, including consideration by those charged with governance in respect of compliance with laws and regulations; identification of fraud, error and breaches of internal control; and material litigation and claims. No matters were brought to our attention.

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit Committee. For 2018/19, the internal auditor's opinion notes that 'In our opinion Forth Valley College has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks.'

## **National Reports**

It is important that the College has embedded arrangements to ensure that consideration is appropriately given to national reports published by Audit Scotland. At present, national reports are reviewed by management and the impact on the College is considered. These will be presented to the Board or relevant committee where necessary.

## **Register of Interests**

It is a College requirement that all Board members complete a register of interests and declarations at least annually (or when circumstances change). Our review of the register of interest declarations compared to Companies House records identified no exceptions or omissions around those declarations made. From 2019 the College has also required senior management to complete declarations, in line with good practice. We have gained sufficient assurance that the College has identified all transactions with related parties within the financial statements.

## **Policies and Procedures**

Through the course of our audit work we consider the completeness and appropriateness of the policies and procedures in place at the College, including financial and other policies, such as HR and governance policies. While we have not identified any policies through the course of our work that are no longer fit for purpose, we note that the College does not currently have a process to effectively monitor all policies and procedures, in order to ensure they are appropriately reviewed and updated in a timely manner or when factors trigger required changes.

### **Recommendation 4:**

The College should ensure a system for recording all existing policies and procedures is created and monitored to ensure they are subject to routine review and appropriately approved by the relevant governance body.

# Value for Money

The College has a strategic plan in place for the period 2017-2022, 'making learning work for all'. The College has continued to report its performance against its strategic plan annually on its website as well as including key measures within the financial statements and Board and committee papers published on the website.

We have no matters to report in respect of the College's arrangements around procurement or staff severance.

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## **Strategic Plan 2017-22**

The College has a strategic plan in place for the period 2017-2022, 'making learning work for all'. The plan identifies the key strategic priorities for the College in order to build on its prior successes and remain at the forefront of college provision in Scotland. The plan notes six strategic themes:

- ▶ Create a superb environment for learning
- ▶ Cultivate a vibrant learning organisation where learners develop skills, achieve qualifications valued by industry and progress seamlessly
- ▶ Instilling an energy and passion for our people celebrating success and innovation
- ▶ Leading as a business that is a champion for governance , financial control and balanced risk taking
- ▶ Enhancing our position as the business and community partner of choice
- ▶ Delivering a whole system approach. Simple, effective, efficient and consistent

## Performance reporting

We reviewed the College's approach to reporting on performance information. The College has a dedicated area of the website for Quality and Performance Information. The College publishes its performance indicators annually on its website as well as including key measures within the financial statements and Board and committee papers published on the website.

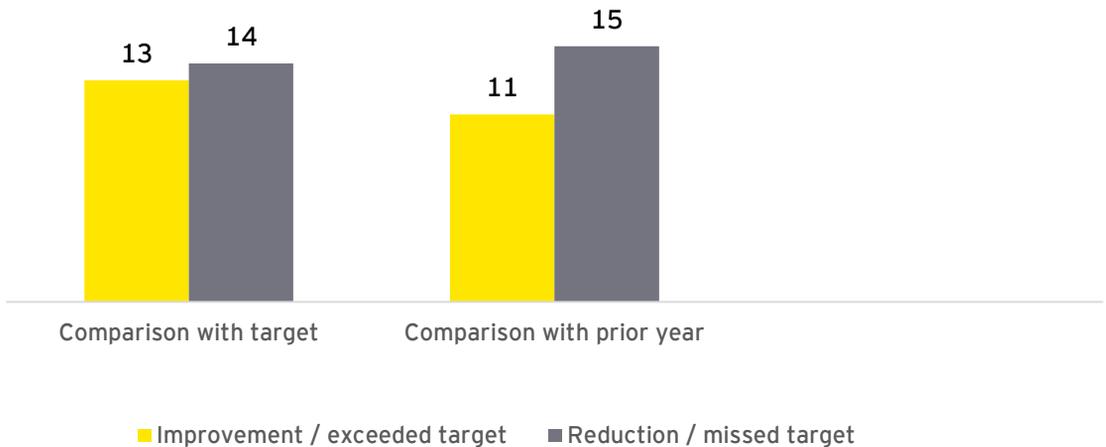
The Board has considered the College's performance for the year through its 2018/19 outcome agreement annual report submitted to the SFC. This included reporting on performance around key performance indicators for:

- ▶ Recruitment;
- ▶ Retention;
- ▶ Attainment; and
- ▶ Progression.

The report includes performance for the year against both prior year performance and targets set for 2018/19, along with commentary explaining the context of results in the year and future plans to improve going forward. Performance by the College and progress in respect of these performance indicators will continue to be monitored by the Board through management reports in 2019/20.

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### Exhibit 5: The Board has reported its performance in key indicators for 2018/19



Source: Forth Valley College Key Performance Indicators reported October 2019

### **Voluntary Severance Scheme**

During 2018/19, the College accounted for payments of £95,000 to five employees who left the College under voluntary severance agreements or redundancy. We confirmed that the College had followed the procedures outlined within SFC's *Guidance for seeking approval for severance schemes and settlement agreements*. We performed detailed testing over the payments made and identified no exceptions or omissions from the disclosures in the remuneration report.

### **Procurement Arrangements**

As in previous years, we have considered the College's procurement arrangements to support the achievement of value for money. We are satisfied that procurement arrangements continue to be reported and scrutinised by the Finance Committee.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

D - Action plan

E - Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

### Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

### Best Value

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

# Appendix B: Independence and audit quality

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the College.

## Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 August 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 23 May 2019.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the Board consider the facts known collectively to you and come to a view.

## Audit Fees

	2018/19	2017/18
<b>Component of fee:</b>		
<b>Total agreed auditor remuneration</b>	<b>£21,110</b>	£20,630
Audit Scotland fixed charges:		
Pooled costs	£1,220	£1,320
Audit support costs	£1,280	£1,150
<b>Total fee</b>	<b>£23,610</b>	£23,100

As outlined in our Annual Audit Plan we anticipated additional audit work required around the implications of a High Court ruling on Guaranteed Minimum Pensions and the McCloud judgement. We are in the process of quantifying the additional work required in this area and agreeing the fee variation with management based on the agreed Audit Scotland day rates for fees. We will report the finalised fee as part of our 2019/20 audit planning report.

Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2019 UK Transparency Report, can be accessed on our website at [https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf). The report explains our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work since appointment can be found at: [www.audit-scotland.gov.uk/uploads/docs/report/2018/as\\_audit\\_quality\\_1718.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf).

# Appendix C: Required Communications

Required communication	Our reporting to you
<p><b>Terms of engagement / Our responsibilities</b></p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	<p>Annual Audit Report</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>

## Required communication

## Our reporting to you

### Related parties

Significant matters arising during the audit in connection with the entity's related parties including, when applicable:

- ▶ Non-disclosure by management
- ▶ Inappropriate authorisation and approval of transactions
- ▶ Disagreement over disclosures
- ▶ Non-compliance with laws and regulations
- ▶ Difficulty in identifying the party that ultimately controls the entity

No significant matters have been identified.

### Independence

Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence

Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:

- ▶ The principal threats
- ▶ Safeguards adopted and their effectiveness
- ▶ An overall assessment of threats and safeguards
- ▶ Information about the general policies and process within the firm to maintain objectivity and independence

Annual Audit Plan

This Annual Audit Report - Appendix B

### Internal controls

Significant deficiencies in internal controls identified during the audit

This Annual Audit Report - no significant deficiencies reported

### Subsequent events

Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.

We have asked management and those charged with governance. We have no matters to report.

### Material inconsistencies

Material inconsistencies or misstatements of fact identified in other information which management has refused to revise

This Annual Audit Report

# Appendix D: Action Plan

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the College or management to action.

## Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The SORP will be revised with effect from 2019/20.	The College should perform an impact assessment on the application of the revised SORP in 2019/20.  <i>Grade 3</i>	Impact assessment will be carried out early in the new year.  Responsible officer: Head of Finance.  Implementation date: March 2020.
2	While the FFR submission process itself is robust, currently the College does not explicitly align its financial forecasts to its overall strategic or operational objectives going forward.	Good practice around financial planning should include alignment of financial plans to the College's overall strategy to ensure they are complimentary and that the College has sufficient resources to meet its objectives.  <i>Grade 2</i>	Planning is already underway on developing a 5 year financial plan. A paper on this was presented to Finance Committee in September 2019.  Responsible officer: VP Finance & Corporate Affairs.  Implementation date: June 2020.
3	In previous years we had noted that the College published Board and standing committee agendas, minutes and papers on their website in a timely manner to ensure transparency around governance arrangements. However, in 2019 this process has not been completed in the same timely manner.	The College should ensure Board and key committee minutes and papers are published on the College website in a timely manner as part of good governance practice.  <i>Grade 3</i>	All outstanding papers now published. Going forward papers will be published in a timely manner.  Responsible officer: Corporate Planning & Governance Officer  Implementation date: November 2019
4	The College does not currently have a process to effectively monitor all policies and procedures, in order to ensure they are appropriately reviewed and updated in a timely manner or when factors trigger required changes.	The College should ensure a system for recording all existing policies and procedures is created and monitored to ensure they are subject to routine review and appropriately approved by the relevant governance body as required.  <i>Grade 3</i>	Register of policies will be implemented and maintained.  Responsible officer: Corporate Planning & Governance Officer  Implementation date: March 2020

# Appendix E: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2018/19 audit cycle.

	Audit Activity	Deliverable	Timing
MAR			
APR	➤ Review of current issues impacting the College throughout the audit process	Periodic current issues return submission	22 March 2019 8 November 2019
MAY	➤ Audit planning and setting scope and strategy for the 2018/19 audit	Annual audit plan	23 May 2019
JUNE			
AUG	➤ Walkthrough visit	Completion of internal documentation around design and implementation of key controls	July 2019
SEPT	➤ Review progress of the NFI exercise	Submit NFI questionnaire	30 June 2019
OCT	➤ Year-end substantive audit fieldwork on unaudited financial statements	Audited financial statements	October 2019
NOV	➤ Conclude on results of audit procedures and finalise Annual Audit Report	Issue Annual Audit Report	31 December 2019
DEC	➤ Issue opinion on the College's financial statements	Submit Audit Scotland Minimum dataset request	

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