



Annual Audit Report

to the Board of Management and the
Auditor General for Scotland
New College Lanarkshire
Year ended 31 July 2019





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This report has been prepared in accordance with our responsibilities as appointed auditors as set out in Audit Scotland's Code of Audit Practice. Reports and letters prepared by the auditor and addressed to the College are prepared for the sole use of New College Lanarkshire and we take no responsibility to any member or officer in their individual capacity or to any third party.



Mazars LLP
Apex 2
97 Haymarket Terrace
Edinburgh
EH12 5HD

The Audit and Risk Committee
New College Lanarkshire
Motherwell Campus
1 Enterprise Way
Motherwell
ML1 2TX

9 December 2019

Dear Members

Annual Audit Report – Year ended 31 July 2019

We are pleased to present our Annual Audit Report for the year ended 31 July 2019. The purpose of this document is to summarise our audit conclusions from our audit of New College Lanarkshire, including the regional consolidated financial statements.

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 on 20 May 2019. 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 Iain Clark, Vice Principal: Resources and the finance 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

Lucy Nutley
Mazars LLP

Mazars LLP – Apex 2, 97 Haymarket Terrace, Edinburgh, EH12 5HD
Tel: 0131 313 7900 – www.mazars.co.uk

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VAT number: 839 8356 73



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 2019 and the audit of the Lanarkshire Regional consolidated accounts. This document will form the basis for discussion at the Audit and Risk Committee meeting on 9 December 2019.

The Lanarkshire Colleges Order 2014 designates the Board of New College Lanarkshire as the Regional Strategic Body for Lanarkshire – known as the Lanarkshire Board. The Order also assigns South Lanarkshire College to the Lanarkshire Board. In August 2016, the Scottish Funding Council awarded fully fundable status to New College Lanarkshire for the Region. As a consequence of this, and determination of accounting standards, the Lanarkshire Board have determined that consolidated regional accounts should be prepared.

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 on 31 December 2019.

Opinion on regularity

We have issued an unqualified regularity opinion on 31 December 2019, 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 on 31 December 2019. 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 have concluded as follows against each of the four wider scope dimensions:

- The Lanarkshire Board has arrangements in place, including budgetary control, that help the Board members scrutinise finances. Currently, consolidated regional financial information is not available to Board members during the year;
- The Lanarkshire Board has adequate financial planning arrangements in place and results from the first year of the Business Plan are encouraging. However, financial sustainability concerns, initially raised in 2017, remain;
- New College Lanarkshire has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board. We consider that regional governance arrangements, while meeting the requirements of the Lanarkshire Colleges Order have scope to become more efficient; and
- The Lanarkshire Board has an effective performance management framework in place that supports progress towards the achievement of value for money.

1. EXECUTIVE SUMMARY (CONTINUED)

Misstatements and internal control recommendations

Section 3 outlines the misstatement noted as part of our audit.

Section 4 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Status of our audit work

We have completed our work on the financial statements and wider scope work for the year ended 31 July 2019.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in May 2019. 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.



1. EXECUTIVE SUMMARY (CONTINUED)

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 £1,086k for the College and £1,451k for the Region using a benchmark (2%) of Gross Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1,123k for the College and £1,522k for the Region, using the same benchmark.

Threshold	Initial threshold College £'000	Final threshold College £'000	Initial threshold Region £'000	Final threshold Region £'000
Overall materiality	1,086	1,123	1,451	1,522
Performance materiality	869	899	1,161	1,217
Trivial threshold for errors to be reported to the Audit and Risk Committee	33	34	44	46
Specific materiality for Remuneration and Staff Report	0.5	0.5	0.5	0.5

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, judgement 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 based 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 inherent 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.

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 and Risk 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

New College Lanarkshire has produced consolidated financial statements for the third time for the 2018/19 year. The consolidated financial statements incorporate the results of New College Lanarkshire, South Lanarkshire College and AMCOL Scotland Ltd, a subsidiary company of New College Lanarkshire which provides children's nursery services.

New College Lanarkshire is a registered charity, the Lanarkshire Board is not. Therefore, in order to meet requirements set by the Scottish charity regulator, OSCR, the regional accounts are named as New College Lanarkshire regional financial statements. For the purpose of clarity in this report, the regional accounts will be referred to as the consolidated financial statements. References to New College Lanarkshire, unless otherwise stated, are to the College as a single entity.

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 8 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 judgement

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 we 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 through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- 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. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Significant risks and key areas of management judgement (continued)

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.

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 we addressed this risk

We addressed this risk through performing audit work over

- The design and implementation of controls management has in place to ensure income is recognised in the correct period;
- Cash receipts around year end to ensure they have been recognised in the appropriate year;
- The judgements made by management in determining when grant income is recognised; and
- Obtaining counterparty confirmation for major grant income.

Audit conclusion

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

Expenditure recognition

Description of the risk

For public sector organisations, the same risk applies to the recognition of non-payroll expenditure and contractual obligations. The pressure to manage expenditure, especially when dealing with costs that are not specifically funded, increases the risk surrounding fraudulent financial reporting of expenditure.

How we addressed this risk

We addressed this risk through performing audit work over

- The design and implementation of controls management has in place to ensure expenditure is recognised in the correct period;
- Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the correct 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 expenditure recognition risk. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 pension liabilities

Description of the management judgement

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 addressed the risk by

- Considering the arrangements put in place, including the controls, for making estimates in relation to pension entries in the financial statements; and
- Consider 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

Nationally, in all Local Government Pension Scheme (LGPS) valuations for accounting purposes, during 2018/19 two matters have been identified:

- The impact of Guaranteed Minimum Pension (GMP) equalisation may not be fully included (GMP concerns the minimum pension which an occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. The amount is said to be 'broadly equivalent' to the amount the member would have received had they not been contracted out.); and
- The impact of a legal case held during the year (known as the McCloud case), concerning potential age discrimination in relation to transition provisions introduced as part of pension reform measures may not be fully included.

Mazars actuaries have reviewed the accounting assumptions used by SPF's actuaries in 2018/19. They identified that the impact of GMP equalisation was not fully included as an assumption in the fund valuation.

In our view, both GMP and McCloud give rise to at least a constructive obligation, which is required to be recognised under FRS102. Management has obtained an estimate of the potential impact of the cost of GMP equalisation based on assumptions by Hymans Robertson, which has been assessed as being a £106,000 increase in liabilities for the College, and £117,000 on a regional basis.

The College and audit team had agreed the initial set of assumptions to be used in arriving at the final LGPS valuation as part of pre-audit planning. The assumption in relation to GMP was, in agreement with the College, amended as part of the audit review process to ensure that the College position was in line with all other organisations in that GMP was to be included in the valuation. On receipt of the updated valuation management, in agreement with the audit team, do not consider that this amount is material to the financial statements, and has no impact on the adjusted operating position. As such, we have recorded an uncorrected misstatement on page 13.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Valuation of land and buildings

Description of the management judgement

The College holds a significant level of land and buildings – reporting a net book value of £96.2m as at 31 July 2019. The Region held land and buildings with a net book value of £130.7m at 31 July 2019.

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 interim valuation was performed at 31 July 2018, no revaluation is planned in the current year. South Lanarkshire College also did not have a revaluation in the current year.

The College policy meets 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. The 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 addressed the risk by:

- Reviewing management’s assessment as to whether the value still reflects the prior year valuation;
- Reviewing the reconciliation between the College’s asset register and general ledger; and
- Considering the College’s impairment review process for land and buildings.

Audit conclusion

Our audit work has provided satisfactory assurance over the valuation of the land and buildings. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Regional financial statements consolidation process

Description of the management judgement

Regional financial statements are prepared which comprise the financial statements of New College Lanarkshire, South Lanarkshire College and Amcol Scotland Limited.

Management are required to make judgements around the consolidation of the transactions and balances of South Lanarkshire College and Amcol Scotland Limited.

How our audit addressed this area of management judgement

We have addressed the risk by

- Reviewing management's judgements relating to the consolidated regional financial statements;
- Reviewing and testing the method of consolidation.

Audit conclusion

We note that the Colleges are aware of different property, plant and equipment revaluation policies in New College Lanarkshire and South Lanarkshire College, such that on an ongoing basis, there will be revaluations in different accounting periods. We do not anticipate that this would result in material misstatements in the future.

We consider that the preparation of the consolidated financial statements is appropriate, and that suitable arrangements are in place to ensure that there is a low risk of material misstatement in the consolidated financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Area of focus

Enhanced risks can arise from significant events occurring during the period under review. Our Audit Strategy recognised that the College Principal, Martin McGuire, had resigned from his post during the year and was due to leave the College in September 2019. While not in the audit year, this will impact on the reporting time frame of the audit. This has been assessed as an area of audit focus due to the need for oversight of governance that is required to be reported upon in the governance statement and arrangements to be put in place to ensure the Accountable Officer that signs the accounts is fully aware of governance arrangements at the College.

Governance changes

Description of the area of focus

Martin McGuire resigned as Principal of New College Lanarkshire during the 2018/19 year and left on 6 September 2019, Annette Bruton was appointed as Interim Principal from 7 September 2019 to 10 November 2019. Professor Christopher Moore's appointment as Principal began on 11 November 2019.

The Chair of the Board resigned from New College Lanarkshire, following a six month leave of absence. An Acting Chair was in post until 10 August 2019 with a new Chair of the Board being appointed on 11 August 2019.

The Lanarkshire Board requires to establish clear arrangements for signing the accounts and ensuring the Accountable Officer has an adequate handover on assurance matters to enable signing of the governance statement.

How we have addressed this area of focus

We considered:

- arrangements put in place to ensure an adequate handover of governance arrangements that give sufficient assurance to the newly appointed Chair and Principal surrounding the 2018/19 regional financial statements.
- arrangements put in place for an Accountable Officer signature in the financial statements; and
- whether the disclosures required in the financial statements in relation to the retiring officer, including remuneration, are complete and appropriate.

Audit conclusion

As the Acting Chair, Keith Fulton, was in the role from 10 September 2018 to 10 August 2019, the Lanarkshire Board consider it is more appropriate that he signs the accounts rather than the new Chair, Ronnie Smith who was not in post in the year under review. We concur with this view.

The SFC Accounts Direction requires that those part of the accounts to be signed 'should be signed and dated by the Principal or Executive Director of the College'. The Principal is the only Executive Director of the College. Martin McGuire was the Principal during the year to 31 July 2019 and will sign the accounts as the Accountable Officer until 6 September 2019. We concur with this view and conclude that this complies with the required governance arrangements.

As the Principal resigned following the year end, there are no specific disclosures required in relation to the retiring officer in the 2018/19 financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 2018/19, appropriately tailored to the College's circumstances.

The New College Lanarkshire financial statements were received on 31 October – our audit fieldwork began on 21 October. The full impact of this was minimised through discussion with the College and the availability of certain key schedules in this time. Although this did have a limited impact on our audit timetable with work being reallocated to a later point. These financial statements were used for our audit of the College only numbers and the disclosures were not audited.

The draft consolidated financial statements and annual report were presented for audit on 21 November, following the start of our fieldwork on 11 November. The narrative of the annual report had also been shared with South Lanarkshire College for comment before being presented for audit. The draft consolidated financial statements and draft annual report were of an adequate quality, with several disclosure amendments suggested. These related mainly to ensuring that both the College and Regional positions were disclosed throughout the financial statements and annual report, and recommending that excessive or unnecessary information is not included.

Producing quality supporting 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 an adequate standard and staff were responsive to our requests during the audit. The finance team has been impacted by key staff changes in the year, and absences during the process which has resulted in some small delays to some information being provided.

Significant matters discussed with management

Throughout the year, we have had discussions with New College Lanarkshire regarding financial sustainability and progress being made with the Business Plan submission to the SFC. See page 20 for further details and conclusion of wider scope considerations of financial sustainability.

We have also had ongoing discussions with New College Lanarkshire over the Governance arrangements in the College in relation to the significant amount of changes in governance throughout the year. See page 24 for further details and conclusion of wider scope considerations of governance and transparency.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management and staff.

In addition to the departure of the Principal in September 2019, the Financial Controller also left the College in May 2019. The Financial Controller has responsibility for the preparation of the financial statements and day-to-day liaison with the audit team. While the role was filled in July 2019 in advance of the preparation of accounts and audit fieldwork, this led to an inevitably slower process as knowledge of College processes was embedded. There have also been absences of key staff during the audit period. We have worked with the College to establish updated timescales where possible.



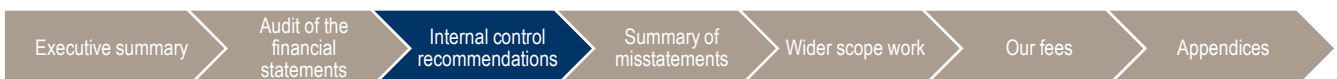
3. INTERNAL CONTROL RECOMMENDATIONS

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 or improvements that could be made.

We identified no recommendations for the improvement of internal controls at New College Lanarkshire during the current year audit.

The follow up from our prior year point identified in relation to the Lanarkshire Board can be found on page 14. However, as this point is considered ongoing as it not complete at the point of writing, it has been re-raised in this report.



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year – the point below was initially raised in the 2016/17 year but was deemed to still be relevant for 2017/18. An update for 2018/19 is therefore noted below.

Lanarkshire Board arrangements **Priority 2**

Description of deficiency

As set out in the Lanarkshire Colleges Order 2014, a number of South Lanarkshire College Board members are required to be members of the Lanarkshire Board. In addition, SLC representatives attend all of the committees of the Lanarkshire Board to present minutes and papers from the relevant South Lanarkshire College Board committees. The Chair of the Lanarkshire Board is a member of the South Lanarkshire College Board. The Finance Committee, with the support of the SFC, have instigated an independent review of regional financial arrangements.

Potential effects

The Accountable Officer for the RSB requires assurance over the arrangements in place across the region. As the RSB continues to evolve and develop, there is a risk that governance arrangements in place become, or are perceived to be less effective, reducing the assurance available to the Accountable Officer.

2018/19 update

During 2018/19, the RSB has taken measures to review and enhance the regional governance arrangements.

In January 2019, a Memorandum of Understanding was developed between the Colleges to give clarity over the principles, expectations and responsibilities of each College, to ensure that students have the best possible learning experience and outcomes. This was signed in June 2019.

A Regional Collaboration Framework and Plan has also been developed during the year, being presented to the Board in October 2019 where it was agreed in principle. Development of the Framework and Plan included meeting with the Chair and Executive Director of the Glasgow Colleges Regional Board to get their insight into managing a multi-College region. The intention is to continue this dialogue on an ad-hoc basis.

A Joint Finance Working Group has been established and remit agreed during the year. This group will meet quarterly with the aim to work together to review and assess financial systems, policies and procedures, practices and processes, and financial control frameworks. The group will also collectively assess opportunities that exist for joint working between the Colleges developing best practice and appropriate benchmarks and KPI's. The group will report to the Lanarkshire Board Finance Committee on an ongoing basis.

Some improvements have been made in respect of the Regional arrangements, but this remains an ongoing process that will be taken forward by the new Principals of New College Lanarkshire and South Lanarkshire College in 2019/20.

This was also raised as a significant risk in the Wider Scope – Governance and Transparency area – see page 26 for further details.

4. SUMMARY OF MISSTATEMENTS

Unadjusted misstatements

We set out below the misstatements identified above the level of trivial threshold of £34k for the College and £46k for the Region.

The Colleges obtained an additional valuation of their share of the SPF pension liability to incorporate costs of Guaranteed Minimum Pension (GMP) equalisation as an assumption in the valuation. This has indicated an increase in the liability of £117k. Management do not consider this amount material and have not adjusted the regional financial statements.

	Statement of Comprehensive Income and Expenditure		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Re-measurement of defined benefit liability Cr: Long term liabilities (Pension deficit)	117			117
The additional pension liabilities arising from incorporation of GMP costs in the pension valuation as per page 8				
Total	117	-	-	117

Disclosure amendments

A number of disclosure amendments were discussed and agreed with management, including:

- Disclosure of College only information
- Corrections to the Remuneration and Staff Report disclosures
- Disclosures around how the signatories have assurances over the accounts

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.

Dimension	Description	Our approach
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: <ul style="list-style-type: none"> • 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	The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review	We have considered: <ul style="list-style-type: none"> • 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
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: <ul style="list-style-type: none"> • 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
Value for Money	Value for money concerns using resources effectively and continually improving services.	We have considered: <ul style="list-style-type: none"> • the College's evidence of providing value for money • the focus on improving value for money and the pace of change at the College.

In 2018/19 we have also considered the following risk areas as they relate to the College:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

We do not consider that any of the above additional risk areas constitute a significant risk for the College at this point, but will continue to monitor.



5. WIDER SCOPE 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 arrangements in place, including budgetary control, that help Board members scrutinise finances for each College in the Region. Currently, no consolidated regional financial information is available to Board members during the year.

Financial performance

FE/HE SORP position

	Region 2018/19 £'000	College 2018/19 £'000	Region 2017/18 £'000	College 2017/18 £'000
Operating income	75,455	55,406	70,158	52,123
Staff costs	(54,249)	(39,296)	(51,943)	(38,327)
Operating expenditure	(21,831)	(16,872)	(20,616)	(16,294)
Operating Deficit for the year (FE/HE SORP basis)	(625)	(762)	(2,401)	(2,498)

The above table shows the financial performance of both the Region and the College for the last two years under the FE/HE SORP. Despite a deficit being shown over both years:

- Both New College Lanarkshire and South Lanarkshire College, and therefore the Region achieved their financial targets and spending was in line with the plan;
- There were no significant changes to the reported position during the year; and
- The student credit target was exceeded, confirming the level of funding in the financial statements.

Operating income has increased by £5.3m for the Region in 2018/19. In 2018/19, New College Lanarkshire received £2.6m in transformation funding to assist with cashflow during the year. The College also received £697k from the SFC in respect of funding for a Voluntary Severance Scheme. These receipts were in line with the Business Plan and were both one-off receipts. The remaining increase to the regional operating income relates mainly to around £2.6m received in respect of funding for National Bargaining and very high priority maintenance funding from the SFC.

Staff cost increases are primarily driven by the outcome of National Bargaining and cost of living increases, which has raised salaries for lecturing and support staff. This increase is reflected across the College sector in Scotland.

Operating expenditure has increased by around £1.2m for the Region. This relates mainly to the high priority backlog maintenance work undertaken during the year in both Colleges.

South Lanarkshire College reported a surplus in the year of £219k which reduced the operating deficit of the Region from that of New College Lanarkshire and the small deficit of £93k generated by Amcol Scotland Limited.



5. WIDER SCOPE FINANCIAL MANAGEMENT (CONTINUED)

Adjusted operating position

The table on the previous page sets out the financial position in accordance with the SORP requirements. The table below reflects the 'adjusted operating position' as required by the Accounts Direction set by the SFC. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions. Full details of the adjustments included are shown in the Performance Report within the Annual Report and Financial Statements.

	Region 2018/19 £'000	College 2018/19 £'000	Region 2017/18 £'000	College 2017/18 £'000
Deficit before other gains and losses	(625)	(762)	(2,401)	(2,498)
Add back:				
- Depreciation (net of deferred capital grant release)	1,401	1,126	1,126	867
- Impairment of assets on revaluation	-	-	323	323
- Pension adjustment – FRS 102 staff cost adjustment	3,076	2,435	1,916	1,509
- Pension adjustment – net interest cost	178	131	481	401
- Non-cash early retirement adjustments	64	45	(186)	(186)
Deduct:				
- Revenue funding allocated to loan repayments (from Cash Budget for Priorities)	-	-	(86)	-
- Exceptional re-structuring cost – transformation funding	(2,600)	(2,600)	-	-
Adjusted operating surplus/(deficit)	1,494	375	1,170	416

The Accounts Direction issued by the SFC for 2018/19 required Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. This has been obtained by the College.

The table above indicates that once the non cash and other applicable adjustments are made, both the Region and the College have achieved a surplus in the current year. The Regional position has improved from the previous year which is in line with the funding increases, while the College has seen a small decrease in their AOP position.

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 2018/19 £'000	College 2018/19 £'000	Region 2017/18 £'000	College 2017/18 £'000
Operating deficit for the year (FE/HE SORP basis)	(625)	(762)	(2,401)	(2,498)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	974	863	974	863
Operating surplus / (deficit) on Central Government accounting basis	349	101	(1,427)	(1,635)

The table above shows a surplus for both the Region and College when the impact of the depreciation budget is taken as the only adjusting factor to the financial position. This is a significant improvement on the previous year, and is as a result of improved management of resources and additional cash flow funding. The Region and the College are therefore currently considered to be operating within their funding allocation. We have considered this in more detail in the Financial Sustainability section of this report.



5. WIDER SCOPE FINANCIAL MANAGEMENT (CONTINUED)

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements in place at both Colleges and as a whole on a regional basis. Our review consisted of review of budget monitoring reports, review of committee papers and attendance at committees.

Finance officers produce monthly management accounts in a regular time frame in accordance with their established processes following the month end. Monthly management reports have reported a consistent position from both Colleges throughout the year. The financial position of South Lanarkshire College is reported regularly to the Lanarkshire Board, through provision of approved minutes and reports and written updates.

Monitoring reports are included on the agenda of every Finance committee. A review of these minutes and onwards to the Board demonstrated effective challenge of the 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 are presented and noted, following their approval by the SLC Board.

We note that consolidated regional financial information is not produced regularly throughout the year. 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 an RSB.

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.

Work carried out by internal audit on corporate governance arrangements concluded that adequate and effective controls were in place to comply with the additional corporate governance requirements documented within the financial memorandum.

We conclude that the processes and controls in place at New College Lanarkshire are operating effectively. Both New College Lanarkshire and South Lanarkshire College have 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 regulations intended to ensure regularity of transactions. These are all currently written on an individual College basis, but we understand there is an intention to align these regularity documents on a regional basis in the coming months.

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 arrangements in place to be satisfactory and identified no material misstatements resulting from fraud or irregularity.

National Fraud Initiative

New College Lanarkshire participated in the 2018/19 National Fraud Initiative (NFI) exercise, following their participation in 2016/17. Data was submitted in line with timescales and the Audit and Risk Committee have been informed of the exercise. There were a low number of matches, with no fraudulent activity identified. In light of changes to management and governance at the College, we have discussed with management the need for a presentation during 2019/20 to introduce the NFI process for members, to ensure everyone is aware of the process and how it impacts the Colleges.



5. WIDER SCOPE FINANCIAL SUSTAINABILITY

Dimension

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

Our conclusion

The Lanarkshire Board has adequate financial planning arrangements in place and results from the first year of implementing the Business Plan are encouraging. However, financial sustainability concerns, initially raised in 2017, remain.

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 work and how we addressed the risk.

Financial Sustainability

Description of the risk

Our 2017/18 Annual Audit Report highlighted that a 5 year Lanarkshire Business Plan had been prepared in close collaboration with the SFC. This predicted a cumulative operating deficit of £2.2m over the 5 years to 2022/23, and a cumulative adjusted operating deficit of £545k. We understand that the Business Plan was updated in November 2018 and shows a slightly improved position.

The Lanarkshire Business Plan identifies the efficiency savings and longer term cost saving measures which they are planning to implement to achieve the required costs savings.

- The plan includes assumptions of reduced support staff costs (through natural turnover, redeployment and ultimately, further voluntary severance schemes), by reducing numbers by 21.5 FTE over the course of the plan. This is intended to achieve a cumulative cost saving of £745k.
- There is an expectation of reducing teaching staff by 62.5 FTE over the plan which should generate cumulative cost savings of £3.4m.
- They aim to increase non-SFC income by focusing on generation of income by access and use of the College assets, providing commercially viable education, training delivery, expanding SDS industry sector and partner funding of apprenticeships and opportunities to access the Flexible Workplace Development Fund (FWDF).

On 21 December 2018 the Principal received a letter from the SFC indicating that it would support the Lanarkshire Business Plan. It has already awarded funding for the VS scheme in 2018/19 of £697k, and the letter noted that it stood ready to award the additional £2.6m transformation funding in March 2019 to support the delivery of the plan.

We reported in our Annual Audit Report that The Lanarkshire Business Plan and its activities would be monitored and reported through Board committees which will have oversight. A Budget Monitoring Group was set up and would review specific areas of the budget and management accounts on a regular basis.

The Principal, Martin McGuire and Vice Principal: Curriculum, Planning and Performance, Derek Smeall have now left the College. They have both been instrumental in the development and implementation of the plan, and the College will need to ensure that the arrangements for their cover/replacements ensure that focus on the plan does not diminish.

In this period of change, inconsistent oversight, or potentially a lack of oversight could lead to an unfavourable diversion from the financial plan, thus we consider the risk to financial sustainability remains.

5. WIDER SCOPE FINANCIAL SUSTAINABILITY

Identified significant risks to our wider scope work (continued)

Financial Sustainability

How we addressed the risk

We have addressed the risk by reviewing and considering:

- the Lanarkshire Business Plan and any changes that have been made since it was approved in October 2018 to ensure this remains up to date;
- the VS scheme that has taken place in 2018/19 to ensure this was conducted in accordance with SFC requirements and in line with employment legislation;
- the financial reporting arrangements in place at the College and whether the Budget Monitoring Group have been conducting their reviews as expected; and
- arrangements in place for the replacement of the Principal & Vice Principal to ensure that this will not affect oversight of the plan and its effectiveness.

Wider scope conclusion

New College Lanarkshire has adequate financial planning arrangements in place and has made progress in relation to financial sustainability during the year. Funding of over £3m has been obtained during the year to fund a further VS scheme in year and to ease cash flow pressures throughout the period of the business plan. The cash flow funding will be repayable to the SFC at a 'suitable juncture' in the future through reduction of funding.

The Business Plan is being closely monitored, by management, the Board and the SFC, with targets being met throughout the year. To mitigate the risk of the senior management team changes, as set out in our significant risk, an Acting Vice Principal was appointed before the departure of the Vice Principal: Curriculum, Planning and Performance to allow for a handover period to be effected and ensure that focus was maintained on implementation and scrutiny of the Business Plan. An Interim Principal was also appointed between 7 September 2019 and 10 November 2019 (and also for a period before the Principal's departure) to ensure a continual focus on the financial and performance aspects of the business plan in the period between permanent Principals.

Despite the success to date, significant savings still require to be made by the College, primarily through VS schemes, over the remaining period of the plan. Ongoing support will be required from the SFC in order to fulfil the Business Plan, and uncertainty surrounding future funding from the SFC remains a cause for concern across the College sector in Scotland.

We acknowledge that it is encouraging that the College and Region have met targets in year, however, we still consider the plan to be in its infancy and that there is sufficient uncertainty around future College funding from the SFC to consider that financial sustainability remains a significant risk.

5. WIDER SCOPE

FINANCIAL SUSTAINABILITY (CONTINUED)

Financial Planning

The Lanarkshire Board has prepared a 5 year Regional Business Plan which has been compiled in close collaboration with the SFC. This was approved at a meeting of the Lanarkshire Board on 10 September 2018 and was submitted to the SFC on 28 September 2018. The plan includes assumptions about inflation in the short and medium term and highlights other financial stability risks. The Board is very clear on the risks to financial sustainability it faces and the uncertainty of funding over the medium and long term.

The Plan included New College Lanarkshire receiving a Strategic Transformation Grant of £2.6m during 2018/19 from the SFC which was received in March 2019. The transformation funding will help to ensure that the College will achieve a recurring positive cash balance throughout the period of the plan and ensure that the underlying operating position returns to surplus. The cash flow funding will be repayable to the SFC at a 'suitable juncture' in the future. The Plan also requests further funding for voluntary severance payments which will take place, subject to funding availability, throughout the course of the Plan.

Adherence to the plan is being monitored closely, and this is reported to the Board Committees on a regular basis. There are also update meetings with the SFC on an ongoing basis to discuss progress. To date, financial performance is in line with the Business Plan, with variances between some of the categories, but an overall positive result. This is encouraging, as it demonstrates the commitment to ensuring this is a key priority, and shows that management and governance changes in year have not impacted progress.

The College also prepares a Financial Forecast Return (FFR) which is submitted to the SFC annually. This comprises the consolidated figures for New College Lanarkshire and Amcol Scotland Limited. The FFR for 2019 is in line with the underlying operating position of the Business Plan, but has been updated to reflect various changes in the sector, mainly the impact of national bargaining.

A summary of the FFR five-year forecast is included in the table below. The figures below are for New College Lanarkshire and based on SFC set assumptions.

	Forecast 2019/20 £'000	Forecast 2020/2021 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Total Income	58,752	59,684	59,994	59,463	59,071
Staff costs	41,882	42,378	42,673	41,911	41,285
Other expenditure	17,979	18,203	18,430	18,661	18,895
Operating surplus/(deficit) before other gains and losses	(1,109)	(897)	(1,109)	(1,109)	(1,109)
Operating position adjustments (e.g. non cash and exceptional items)	1,109	1,109	1,109	1,109	1,109
Adjusted operating surplus /(deficit)	-	212	-	-	-

The key assumptions in the FFR, and discussed with the SFC, are as follows:

- Credit values, national bargaining harmonisation and cost of living increases as per SFC and FFR guidance, with no funding provided for the cost of living increases;
- Severance schemes will be fully funded by the SFC;
- Other income is assumed to increase by 1.1% from 2019/20 adjusted for the credit reduction in 2022/23;
- Inflation is assumed to be 1.5% for non-payroll;
- Subsidiary (AMCOL) profit is assumed to increase to £200k per annum from 2019/20 onwards; and
- No strategic capital funding will be available for restructure of learning spaces.

We note that South Lanarkshire College has also prepared and submitted a separate FFR to the SFC, as it was required to do.



5. WIDER SCOPE FINANCIAL SUSTAINABILITY (CONTINUED)

Clearly, in order to achieve financial sustainability in a climate of reduced core financial settlements, the main focus for the College is to reduce costs, and the largest cost is staffing. The plan includes assumptions of reduced support staff costs (through natural turnover, redeployment and ultimately, further voluntary severance schemes), by reducing numbers by 21.5 FTE over the course of the plan. This is intended to achieve a cumulative cost saving of £745k. By end July 2019, the reduction of 5 FTE was on target with the Business Plan.

The plan also includes assumptions regarding reducing the teaching staff costs. This is a larger element of savings and there is an expectation of reducing teaching staff by 62.5 FTE over the five year plan, through further voluntary severance schemes which is expected to give cumulative cost savings of £3.4m. The College has reduced the teaching staff FTE numbers by 12 in 2019, which is 1 less than target – however, this has been offset by a slightly higher rise in class sizes than forecast.

The College is clear that the reduced staffing will increase pressure on maintaining levels of credit delivery and performance levels and must ensure that teaching staff are timetabled correctly, to ensure these aims are met.

The plan seeks to increase non-SFC income, where possible. This will be done by focusing on generation of income by access to and use of the Colleges assets, providing commercially viable education, training delivery, expanding SDS industry sector and partner funding of apprenticeships and opportunities to access the Flexible Workplace Development Fund (FWDF).

Each project stream of the Business Plan and its activities is being monitored and reported through the most appropriate Board committee, which has oversight as the plan progresses. Tighter controls have been, and will continue to be applied internally over budgeting processes, and cost controls. A Budget Monitoring Group has been set up and detailed monthly reviews of management accounts by all senior staff, with a more enhanced analysis will be undertaken. Reporting at the Board Committees is evident throughout the year, so it is clear that this is being treated as high priority.

Additionally, a focus is to be placed on achieving regional efficiencies, which is part of the remit of the Joint Finance Working Group and part of the Regional Collaboration Plan.

Asset Management and Estates Strategy

Each College has a significant estate, leading to a value of £131m being recorded in the consolidated financial statements for land and buildings as at 31 July 2019. New College Lanarkshire has six campuses spread across Lanarkshire and East Dunbartonshire. South Lanarkshire College operates from a single site in East Kilbride.

There is currently no regional Estates Strategy.

A formalised plan exists for South Lanarkshire College, lasting to 2019.

A formal Estates Strategy 2018-2028 was developed during the prior year for New College Lanarkshire which will be reviewed annually by the Vice Principal: Resources. Alongside the Strategy, the following Plans and Guidance have also been developed to be followed in conjunction with the Strategy, being:

- NCL Estates Action Plan
- NCL Carbon Management Plan 2019/20 – 2022/23
- NCL Planned Preventative Maintenance/Lifecycle Costing Schedule



5. WIDER SCOPE FINANCIAL SUSTAINABILITY (CONTINUED)

National estates survey

Gardiner & Theobald were appointed by the Scottish Funding Council in January 2017 to provide a summary of the conditions of the estates within the Scottish Further Education sector, being the first independent review of the College estate in Scotland for 10 years. Across Scotland the estimated net total backlog of maintenance and renewals cost is £163 million excluding contingencies, any related operational and management costs of the Colleges, professional fees, VAT, optimism bias and inflation allowance. When taking these items into account, the resulting total gross estimated backlog is £363 million. 10% of these costs were defined as urgent, requiring action within the next year, with the majority of the costs requiring action within 3-5 years.

The Scottish Funding Council is working with the Scottish Government and Scottish Futures Trust to produce a framework for College sector estate development to manage competing demands for estate development.

The New College Lanarkshire surveys for the three campuses showed an estimated total of £17.2 million of costs over the 5 year period from 2018-19 to 2022-23, with £4.8m being identified as very high priority back log maintenance. £4.8m of funding was received by the College during the year and was spent in accordance with requirements.

The South Lanarkshire College survey showed an estimate of £1.7 million of costs over the 5 year period from 2018-19 to 2022-23, with £1.4m being identified as very high priority back log maintenance. £1.4m was received by SLC during the year which has been spent in line with agreements made with the SFC.



5. WIDER SCOPE 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.

Our conclusion

New College Lanarkshire has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board. We consider that the regional governance arrangements, while meeting the requirements of the Lanarkshire Colleges Order have scope to become more efficient.

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 work and how we addressed the risk.

Governance and transparency

Description of the risk

Board and Committees

In the year to July 2019, there have been several Board resignations, including the Chair of the Board. New members have been appointed, but the Board remains three members short of its complement.

Changes have been made to a number of Committees to ensure quoracy in the coming months.

As previously mentioned, the Principal and Vice Principal: Curriculum, Planning and Performance have resigned and will be leaving their posts in the coming months.

This large upheaval in senior positions and the Board indicates a significant governance risk in relation to the overall operation and oversight of the College.

Regional arrangements

Our 2017/18 Annual Audit Report noted that New College Lanarkshire, as the Regional Strategic Body for Lanarkshire had planned to perform a review of regional financial governance arrangements to identify potential improvements to the governance framework in place, but this had not yet taken place.

The review was set to consider the following areas:

- Structural arrangements – including oversight, clarity of arrangements and requirements of the legal framework;
- Assurance – including assurances to the regional Accountable Officer; and
- Future planning – including what the framework should be.

We consider that there should be a review of governance arrangements to assure members and stakeholders that the most appropriate arrangements are in place. There remains a risk that the governance arrangements in place for the Region are inappropriate, until a formal review is undertaken.



5. WIDER SCOPE GOVERNANCE AND TRANSPARENCY

Identified significant risks to our wider scope work (continued)

Governance and transparency

How we addressed the risk

Board and Committees

We have addressed the risk by considering:

- steps being taken to recruit new Board members and Audit Committee members;
- steps being taken in recruitment of new senior staff;
- interim measures in place to ensure governance of the College is being assured; and
- any communication with SFC surrounding the situation.

Regional arrangements

- progress and outcomes of the financial governance review; and
- the outcomes and any recommendations made by Audit Scotland as part of Scotland's Colleges 2019 (the annual review of the sector by Audit Scotland).

Wider scope conclusion

New College Lanarkshire has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board. Similarly, South Lanarkshire College, operating singularly, has similar governance arrangements in place. A Regional Benefit Statement has been prepared which covers the 2018/19 period and a summary of this has been included within the Statement of Corporate Governance and Internal Control in the Annual Report.

As set out on page 14 of this report, we recognise that a number of activities have taken place during the year that will support regional working – a Regional Collaboration Framework and Plan have been developed and a Memorandum of Understanding has been developed and agreed by both Colleges during the 2018/19 year. These documents, along with consideration of recommendations made during an operational regional review undertaken by an external consultant in September 2019, will seek to improve arrangements in place and allow the region to demonstrate the benefits they are obtaining from regional working.

The governance arrangements in place at New College Lanarkshire as the RSB for Lanarkshire meet the requirements set out in the Lanarkshire Colleges Order. We, and the Board recognise that while meeting regulatory requirements, this may not be the most optimal approach to regional governance. We will continue to monitor progress against recommendations made by the review as they are accepted by the Board. Until all recommendations have been considered by the Board and action taken against them, we consider that the risk that the governance arrangements in place for the Region are not efficient, remains.

5. WIDER SCOPE

GOVERNANCE AND TRANSPARENCY (CONTINUED)

Board and Committees

During the year there have been many changes to the governance and management of the College. As noted earlier in the report, after a six month leave of absence, the Chair of the Board resigned on 8 March 2019. The Interim Chair, appointed at the start of the leave of absence by the Scottish Government, had his appointment extended until a recruitment process was completed. Ronnie Smith was appointed as Chair of the Lanarkshire Board on 11 August 2019.

There were three new Board members appointed during the year, however, there were also three Board member resignations. Of this three, two were members of the Audit and Risk Committee, one being the Chair of the committee. During the year, the Audit and Risk Committee has appointed new members, but has not been quorate on two occasions during the 2018/19 year. On one of those occasions, the Audit and Risk Committee was chaired by the Interim Chair of the Board which is not normal practice in governance, but is permitted under the College Standing Orders if agreed by the members. On this occasion, the remaining members of the Audit Committee did not wish to assume the Chair role, and the members therefore agreed that the Interim Chair of the Board would assume the position.

Through discussions held with the Secretary to the Board, we are aware of the effort undertaken to recruit new Board Members. This is an ongoing process, and the recruitment process has been successful to date. There are still vacancies on the Board, but there are potential candidates. As at 31 July 2019, the Board remains three members short of the maximum complement set out in legislation, but remains within the permitted parameters of 19 to 22 members.

In addition to the Principal leaving New College Lanarkshire in September 2019, the Vice Principal: Curriculum, Planning and Performance also left the College in July 2019. An Acting Vice-Principal was appointed internally prior to the departure of the Vice-Principal, in order to maintain emphasis on the Business Plan, as well as have an effective handover. A permanent appointment is expected to be made with the new Principal's input in the coming months.

In addition, an Interim Principal, Annette Bruton, was appointed after the year end in September 2019, following the Principal's departure until the new Principal arrival in November 2019. Although this doesn't fall into the 2018/19 period, Annette did work with the Senior Management Team during 2017/18 to ensure that continuing focus was given to the Business Plan, before formally taking on the appointment of Interim Principal in the 2018/19 academic year. This demonstrates active engagement by the Board to minimise any disruption to the College in respect of the SMT changes by ensuring there was an adequate crossover of senior staff. This also ensured a continual focus on the financial and performance aspects of the business plan.

Financial Governance review

As previously mentioned in the Financial Management Section, there has been progress this year in terms of reviewing the Regional arrangements.

Internal audit also completed an audit on Corporate Governance at New College Lanarkshire, with a specific review of the Regional arrangements with an overall conclusion of Strong and raising no recommendations for improvements.

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 Committees of the Lanarkshire Board and South Lanarkshire College during the year.

The Board currently consists of 21 members, 11 male and 10 female, including the Chair. The College is aware of the objective of the Gender Representation on Public Boards (Scotland) Bill and will continue to seek to maintain gender balance on the Board by 2022.

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5. WIDER SCOPE GOVERNANCE AND TRANSPARENCY (CONTINUED)

Governance arrangements (continued)

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 2018/19 year. 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, but there is no further New College Lanarkshire representation. Conversely, there are SLC representatives attending all committees of the Lanarkshire Board. These arrangements stem from the requirements of the Lanarkshire Colleges Order.

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.

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 the College'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 that 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 for New College Lanarkshire, and thus the region, is provided by Wylie and Bisset. The financial memorandum between the Lanarkshire Board and SLC requires that SLC has an effective internal audit service which has been provided by Scott-Moncrieff. Internal audit have attended Audit and Risk Committees throughout the year and have produced reports which have been reviewed.

Internal audit have reached the following conclusion:

"In our opinion New College Lanarkshire as a regional strategic body did have adequate and effective risk management, control and governance processes to manage its achievement of the Region's objectives at the time of our audit work. In our opinion the Regional has proper arrangements to promote and secure value for money."

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.

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5. WIDER SCOPE VALUE FOR MONEY

Dimension

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

Our conclusion

New College Lanarkshire has an effective performance management framework in place that supports progress towards the achievement of value for money.

Performance management

The performance report identifies that the Region achieved its 2018/19 SFC core funded target by delivering 171,960 SFC funding Credits (the SFC's unit of measure for learner activity). In addition the Region achieved European Social Fund (ESF) credits of 12,169, which was on target. The Region provided places for 12,275 full-time Equivalent learners. Improvements in attainment and student satisfaction are also notable. The details of the credits are set out below:

	Original credit target (incl ESF)	Credits de-committed to SFC	Credits transferred	Resulting target	Actual credits achieved	Difference	Difference %
New College Lanarkshire	136,282	(2,000)	(900)	133,962	133,816	(146)	(0.1%)
South Lanarkshire College	48,853	-	900	49,753	50,313	560	1.1%
Lanarkshire Region Total	185,715	(2,000)	-	183,715	184,219	414	1.0%

The above shows the split of credits between the Colleges, and demonstrates the collaborative way in which the Colleges are operating, as credits were transferred during the year. New College Lanarkshire agreed with the SFC to reduce their credit target as part of a managed reduction of SFC credit activity in support of the Business Plan, and in fact were slightly under the revised target. SFC funds the Region as a whole, so there will be no reduction to funding as a result of this, given that the Region exceeded the target on an overall basis.

There is close monitoring of the delivery of the Regional Outcome Agreement, financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget objectives to be achieved. Through delivery of the 2018/19 budget there is clear evidence that the College understands cost drivers and is in control of costs.

Regularity

As part of our audit of the consolidated 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 executive team at New College Lanarkshire 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 operational performance to the Board and its committees. They regularly correspond with South Lanarkshire College on matters that affect both Colleges and those that require a regional response.

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.

We consider value for money and Best Value throughout our testing. Areas where we had a specific focus on value for money and Best Value are procurement and regularity.

We reviewed regularity of expenditure through our controls and substantive procedures and did not identify any exceptions.



6. OUR FEES

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 and Risk Committee in May 2019. Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2018/19	Final fee 2018/19
Auditor remuneration	£41,510	£41,510
Pooled costs	£2,190	£2,190
Contribution to Audit Scotland costs	£2,300	£2,300
Total Fee	£46,000	£46,000

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 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.

