



# Moray College

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

February 2020



**EY**

Building a better  
working world

# Contents

Section	Auditor Responsibility	Page
Executive Summary	Summarise the key conclusions from our audit	03
Financial statements audit	Provide an opinion on audited bodies' financial statements Review and report on, as appropriate, other information such as the annual governance statement, management commentary and remuneration report	09
Wider scope dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none"><li>• financial position and arrangements for securing financial sustainability</li><li>• suitability and effectiveness of corporate governance arrangements</li><li>• effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets</li></ul>	17
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards:  Appendix A: audited body's responsibilities  Appendix B: required auditor communications  Appendix C: independence and audit quality  Appendix D: action plan  Appendix E: follow up of prior year recommendations  Appendix F: Timing and deliverables of the audit	29

## 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 Moray College (the College) for financial years 2016/17 to 2021/22. 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 Hywel Ball, 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.

# Executive Summary: Key Conclusions from our 2019/20 audit

---

We intend to issue an unqualified audit opinion on the College's 2019/20 financial statements.

---

We updated our risk assessment in response to the global pandemic, and as a result placed additional focus on:

- the adequacy of the College's disclosures in relation to the pandemic; and
- management's assessment of going concern and the related financial impact of Covid-19 on the College in the year and going forward.

## Financial Statements

We have completed our audit of the College's financial statements for the year ended 31 July 2020. The draft financial statements and supporting working papers were provided in line with the agreed audit timetable and were of a good standard. As a result of increased focus due to the significance of the impact of the pandemic, we worked with the finance team to enhance the Covid-19 and going concern disclosures within the financial statements. Two audit adjustments were required to be made to the financial statements during the course of the audit, which are outlined, along with unadjusted differences in Appendix D.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the disclosures reflect the College's compliance with the Code of Good Governance for Scotland's Colleges, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

## Going Concern

Management is required to conclude on the going concern basis of preparation in the financial statements. As a result of the unprecedented financial and operational pressures faced by the College to respond to Covid-19, we placed additional emphasis on management's assessment of going concern and the related need to report on the impact of financial pressures on the College and its financial sustainability. We were satisfied that the College remains a going concern and has made appropriate required disclosures in the financial statements. We have considered the related risks to the financial sustainability of the College and its longer term delivery of strategic objectives in our wider scope reporting.

## Wider Scope and Best Value

We summarise the conclusion we reached in response to our work on the wider scope dimensions below.

### Financial Sustainability

The financial environment in which the College operates continues to present significant challenges, creating a risk that the College will not be able to develop viable and sustainable financial plans due to external factors.

The College has continued to review and update its medium term financial forecasts. The College projects an underlying operating deficit position for 2020/21 of £0.3 million, before returning to a marginal surplus for the remaining years of the plan. The College continues to face a significant challenge despite a financial recovery plan that significantly reduced operating expenditure.

RED

### Governance and Transparency

The key features of governance have operated effectively throughout the Covid-19 lockdown.

The College responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.

The College's Annual Governance Statement continues to disclose areas of non-compliance with the Code of Good Governance for Scotland's Colleges as a result of the issues identified within Financial Sustainability. The College continues to work with the Regional Strategic Body and other UHI Partners to actively support discussions and the development of options that may help secure the financial sustainability of FE and HE provision across the area.

GREEN



# Introduction

## Purpose of this report

As a result of the impact of Covid-19, Audit Scotland agreed to extend our appointment as external auditor of the College by at least 12 months, to 2021/22.

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 Moray College (“the College”) for the five year period 2016/17 to 2020/21. Our appointment term has recently been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

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 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 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. Where we identify areas for improvement, we will highlight these throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management.

## Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your 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 in June 2020.

## The impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in April and May 2020, and presented our Annual Audit Plan to the College's audit committee in June 2020. While the declaration of the global Covid-19 pandemic and the resulting lockdown arrangements were in place, we noted at the time that there remained a significant number of uncertainties over how the pandemic could impact the College's financial statements preparation and arrangements around the areas of wider scope subject to audit. As a result, we revisited our planning assessments for the 2019/20 audit and presented an updated planning report addendum to the College in October 2020.

As a result of our assessment we have not identified any new financial statement risks. There are, however, a number of areas of audit where we identified increased risks or new areas of focus within existing risks. The financial statement disclosures were also expected to have been impacted by Covid-19, including:

- **Governance Statement:** The governance statement is required to capture how the governance arrangements changed during the lockdown period and what steps were taken to maintain a robust control environment during the disruption.
- **Disclosures and estimates:** Additional disclosures were required throughout the financial statements, including the performance and accountability report, to reflect the additional risks facing the College and how these have impacted the key judgements and estimates made in preparation of the financial statements. These include disclosures on significant events after the balance sheet date.
- **Going concern:** In accordance with the Government Financial Reporting Manual ('the FReM'), the College should prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. Covid-19 has created increased financial pressures throughout the public sector. Uncertainty remains about the level of financial support that may become available from the Scottish Government to reflect the financial consequences. In light of this, the audit placed increased focus on management's disclosures regarding the going concern basis of preparation in the financial statements, in particular the financial impact of Covid-19 and the future financial sustainability of the College. The results of this assessment are reported in Section 2 on page 16.

The ongoing disruption to the delivery of further education as a result of the Covid-19 has a pervasive impact upon the financial statements.

The financial statements have been updated to reflect the impact of Covid-19 on the College's financial position and performance.

### Adaption to remote working

Our audit fieldwork was completed remotely as a result of the Scottish Government's lockdown restrictions. There were two key impacts:

- Additional work was required to assess the format of evidence provided and where necessary, procedures were performed to validate the authenticity of evidence; and
- All contact with senior management and the finance team was conducted via virtual meetings. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

We remain satisfied that the values reported to you in our Annual Audit Plan Addendum for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

### Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of approximately £280,000, based on 2% of the College's forecast expenditure for the year. In our Audit Planning Addendum, presented to the Audit Committee in October 2020, we reviewed the appropriateness of this benchmark based on the significance that the audit would place on going concern and the impact of the global pandemic on the College's financial position. As a result, we elected to move to the lower end of our materiality range (1%). As we reported in our Annual Audit Plan Addendum we audit a number of areas of additional focus to lower materiality levels.

Overall Materiality

£149,000

1% of the College's operating expenditure

Tolerable Error

£112,000

Materiality at an individual account level

Nominal amount

£7,000

Level that we will report to committee

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements. As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

### 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.

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 2020 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).

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 are summarised in Section 3 of this report.



## Financial Statements audit

### Introduction

The financial statements provide the College with an opportunity to demonstrate accountability for the resources that it controls, and report on its overall performance in the application of those resources during the year.

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.

The plan highlighted one area that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition, including through management override of controls.

### 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).

Management provided draft financial statements at the start of the audit, in line with the agreed timetable. The financial statements had been updated for the new requirements as outlined in the SFC's 2019/20 Accounts Direction for colleges and the new FE SORP which was applicable this year.

### Audit Outcomes

As Appendix D highlights, we identified two, related, adjusted audit difference arising from the audit which have been reflected within the financial statements. Appendix D also identifies a number of minor unadjusted audit differences in Appendix D. These reflect, in part, the application of our lower level of materiality and we are satisfied that management has not elected to adjust for them. Our overall audit opinion is summarised on the following page.

The FE/HE SORP 2019 edition became effective for the year ended 31 July 2020. The College performed a review of the impact of the new SORP on their financial statements with the only material change being the new 'Analysis of Debt' disclosure.

# 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 2020 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 2019/20 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

## 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.

As outlined in our audit planning report, we rebut 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 rebut the risk of improper recognition of payroll expenditure however we have identified a specific risk in relation to the change in payroll system during the year.

## 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 an additional search for material payments and receipts received after year end and ensured these had been accounted for in the correct period; and
- Review both income and expenditure for additional revenue streams and related to the Covid-19 outbreak, such as additional grant income or additional health and safety costs.

## Our conclusions

- Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
- We identified one misclassification in relation to the disclosure of income sources. Management reflected this difference within the financial statements and no further differences were identified from testing performed.
- There were no new material income or expenditure streams as a result of Covid-19. We agreed the impact of Covid-19 on tuition fees with management and concurred with the treatment in the financial statements.

### Risk of management override

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.

### Risk of Fraud

- We considered the risk of fraud, enquired 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.

### Testing on Journal Entries

- 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 all journals posted in the financial year and used our data analysers to identify those requiring further investigation and corroboration, such as those posted by management to key accounts around the financial yearend.

### Judgements and Estimates

- We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

### Significant unusual transactions

- We evaluated the business rationale for any significant unusual transactions appearing in the financial statements in the year.

### Accounting Policies

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

### Our conclusions

- We have not identified any additional risks in respect of potential frauds in the financial year.
- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

### Inherent Risk – Valuation of Property, Plant & Equipment

Given the size of this balance and the number of assumptions that are made in the valuation of the College estate, we assign a higher inherent risk to property, plant and equipment. During the year, the Royal Institute of Chartered Surveyors (RICS) issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty at 31 March 2020. While this guidance was subsequently removed by 31 July 2020, there was a materially increased uncertainty around the valuation of assets in the current environment.

The College engaged an external valuer to value the full estate in 2018/19. There remains increased uncertainty around the valuation of assets in the current environment, and we therefore placed additional focus and challenge on management's assessment of potential impairment of the asset base. As the College's assets are generally valued using depreciated replacement cost, the valuations are subject to less market volatility. The College's PPE totals £25.6 million, a slight increase of £0.2 million from 2018/19. This movement includes additions of £1.1 million, offset by depreciation of £0.9 million.

Our approach focused on:

- enquiring with internal specialists about the movement in indices since the last valuation, that may impact the carrying value of the College's assets;
- assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation; and
- consideration of the appropriateness of disclosures made by the College in the financial statements in respect to potential valuation uncertainties at 31 July 2020.

#### Our conclusions

- We concluded that there were no material audit differences in the approach and conclusions around management's valuation of the College's estate at 31 July 2020.
- We concluded that all material uncertainties in respect of the valuation of assets were appropriately disclosed in the financial statements.

# 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 Pension Assets and Liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (North East Scotland Pension Fund, NESPF) and the Scottish Teachers Superannuation Scheme (STSS). At 31 July 2020, the College's share of the pension scheme net liability totalled £29.5 million (2018/19: £25.9 million) and the present value of the unfunded obligation in relation to early retirements agreed in previous years is £0.2 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.

Our approach included:

- obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of actuarial assumptions underpinning such reports in conjunction with our internal specialists;
- performing substantive testing on the verification of the pension assets. Specifically, we engage with the auditors of NESPF in line with the assurance protocols laid out by Audit Scotland for IAS 19 and FRS 102, including consideration of possible valuation uncertainties driven by the impact of Covid-19. We also analyse the fund's estimated asset position at 31 July 2020 from its financial year end position at 31 March 2020 against expectations based on equity and other market movements in that time period;
- assessing the work of the actuaries in considering the impact of new and changing legal rulings impacting the liabilities in the fund, in particular in relation to the impact of updated guidance on the impact of the McCloud ruling and the new Goodwin judgement; and
- reviewing the calculation of the College's valuation of future early retirement liabilities at 31 July 2020, including the integrity of the underlying pensioner data used by the actuary and College.

### Our conclusions

- In calculating the scheme assets as at 31 July 2020 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 NESPF.
- For the Goodwin judgement, the actuaries included a high-level assessment within their covering report but did not allow for the impact within the FRS102 report. Based on the most recent estimate performed by Mercers, the employer's liabilities of the College would increase by approximately 0.1% as a result of the Goodwin judgement, which would be around £30,000 and therefore the actuaries, and management do not consider this to be material for the financial statements.
- 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.

# Going concern

In accordance with the FReM, the College shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still require auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

The rationale for going concern remains the same, but we placed increased focus on management's assertion of going concern and disclosures relating to financial sustainability as a result of the uncertainty and unprecedented budget pressures caused by Covid-19.

Covid-19 has created a number of financial pressures throughout the public sector, including further education. Uncertainty remains about the level of financial support that may become available from the SFC to reflect the financial consequences of Covid-19. As a result, the SFC's 2019/20 Accounts Direction requires an explanation of the adoption of the going concern basis and mitigating actions taken as a result of Covid-19 to be included as part of the going concern commentary within the College's financial statements, both in the Performance Overview and Annual Governance Statement.

Management's going concern assessment and associated disclosures cover at least the 12 month period from the date of approval of the financial statements, but may be expected to include future performance through the medium term.

After completing its going concern assessment in line with the information and support provided through the earlier discussions in the audit process, the College has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the College's financial position going forward in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- the completeness of factors considered in management's going concern assessment;
- the integrity and robustness of the underlying cash flow forecasts supporting future financial projections, in particular if the College projects to require financial support during the going concern assessment period; and
- the completeness of disclosures in the financial statements in relation to going concern and future financial performance in line with the requirements of the SFC 2019/20 Accounts Direction.

## Our conclusions

- We are satisfied that it remains appropriate for the College financial statements to be prepared on a going concern basis.
- We worked with management to enhance some of the disclosures in relation to going concern and the expected medium term impact of Covid-19 which have been appropriately reflected within the College financial statements.



### 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.

#### Governance and Transparency:

- Is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

We outlined in our Annual Audit Plan Addendum, presented to the Audit Committee in October 2020, how our consideration and audit work in respect of the wider scope dimensions would be impacted by Covid-19 this year. Our areas of audit focus in these areas have therefore been undertaken through the lens of Covid-19.

# Financial Sustainability

The financial environment in which the College operates continues to present significant challenges, creating a risk that the College will not be able to develop viable and sustainable financial plans due to external factors.

The College has continued to review and update its medium term financial forecasts. The College projects an underlying operating deficit position for 2020/21 of £0.3 million, before returning to a marginal surplus for the remaining years of the plan. The College continues to face a significant challenge despite a financial recovery plan that significantly reduced operating expenditure.

R  
E  
D

## The context for financial sustainability in the FE sector

During October 2020, the Scottish Funding Council (SFC) released three reports considering the future of colleges and universities. Their review of coherent provision and sustainability which considered how best the SFC can fulfil its mission of securing coherent provision by post-16 education bodies, and the undertaking of research in these changing times. The review covered future provision, delivery, outcomes and targets, funding models and support for research activity across the college and university sector in Scotland.

Specifically, as part of this review, the SFC published their updated analysis of the sector within The Financial Sustainability of Colleges and Universities in Scotland. This reflects on the specific financial challenges the sector was facing prior to the impact of Covid-19, including cost pressures from cost of living pay awards, employers' pension contributions, maintaining the college estate and the UK's exit from the European Union, and notes that colleges were already implementing transformation plans to address those challenges. Covid-19 has, in some cases, resulted in the delay of these transformation plans, particularly where they relate to severance and commercial income growth. The main impact of Covid-19 is considered to be felt most by the sector during the 2020-21 financial and academic year.

Work is underway to consider the full impact of the financial saving requirements outlined in the FFR against the College's strategic objectives, and lead partner roles within the Moray Growth Deal.

Recognising the financial challenges facing colleges in the upcoming period, the SFC has taken a number of actions to further support colleges including:

- Targets – SFC will not recover funds for shortfalls against outcome agreement targets where these are related to Covid-19;
- Capital Funding – £2.3 million of additional funding for colleges was awarded to support the provision of ICT equipment to tackle digital poverty. In addition, the SFC announced £6.5 million of additional capital funding to support the economic recovery in 2020/21;
- Cash advances – SFC has provided flexibility in grant drawdowns to several colleges encountering liquidity challenges; and
- Flexibilities in relation to Flexible Workforce Development Fund, Student Support funds and credits.

Additional funding has also been announced to support employers to fund Modern Apprenticeship placements, and further support is also expected to become available in relation to the Youth Guarantee Scheme (£10 million direct funding for colleges) and the transitional training fund. Individual colleges, including the College, have also made use of the Coronavirus Job Retention Scheme.

In addition to these steps, the SFC is working with the Scottish Government and other stakeholders on a possible Transformation Investment Fund to support colleges to make specific one-off investments to achieve lasting improvement in their financial health.

#### Financial performance and monitoring

The College reported a deficit of £1.3 million for the year (2018/19: £0.7 million). Following an actuarial loss of £1.3 million, the College reported total comprehensive expenditure of £2.6 million (2018/19: £3.1 million income). The College had an operating deficit after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £0.26 million (2018/19: surplus of £0.1 million).

The financial performance in 2019/20 was significantly impacted by Covid-19. In particular, tuition fee and other non-SFC income reduced significantly following the College closure in March 2020. This reduction in income was offset by staff savings through the furlough scheme and other savings related to delayed expenditure.

The College was unable to submit a balanced budget for the 2020/21 financial year.

In line with previous years, the College's financial performance was monitored throughout the year by management and the Finance and General Purposes Committee. This process was not impacted by Covid-19, and there is evidence of financial monitoring, reporting and planning by the Board and its committees through the financial year, up to the approval of the 2020/21 budget and its submission to the SFC in June 2020. We do, however, note that the College was unable to submit a budget for 2020/21 that limited the deficit to the approved non-cash level (translating to a deficit of £450,000). As a result, the College has had to notify the SFC and RSB of this position.

Throughout 2019/20 management reported budget pressures and variances through its Financial Update reporting. An additional Board meeting was held in September 2020 to respond to the significant financial impact of Covid-19 on the College's financial forecasts. We were therefore satisfied that the Finance and General Purposes Committee and the Board were fully sighted on significant financial matters throughout the reporting period.

## Medium term financial forecasting

The College has prepared a three-year financial forecast for the period 2020 to 2023 and submitted these to the SFC in the form of the template Financial Forecast Return ('FFR'). The forecast was based on assumptions provided by the SFC in addition to College specific assumptions for areas such as other income and staff numbers, and projected an underlying operating deficit of £1 million in 2020/21. The assumptions have been subject to continued scrutiny by the College's senior management team and Finance and General Purposes Committee. As Exhibit 1 demonstrates, as a result of improved performance against the budget in 2020/21, the underlying deficit has reduced to £318,000. This is as a result of improved income projection, and the achievement of cost savings; this analysis forecasts a small underlying operating surplus for the three years of the plan.

Exhibit 1: The College's updated FFR highlights that the College is forecasting an operating deficit, for the three years of the FFR period through to 2022/23. A marginal underlying surplus is forecast from 2021/22 when non-cash elements are removed.



Source: Moray College Updated Financial Forecast Return, December 2020

The College notes that there are a number of uncertainties within the assumptions that underpin the FFR. These include the nature of FE and HE funding. For 2020/21, the College's credit target will increase as a result of an additional 2,000 credits awarded to the UHI Partnership. The revised credit target will be significantly challenging to achieve. While there is no clawback implication for 2020/21 as a result of announcements made by the SFC, a failure to achieve targets may impact the distribution of credit targets, and therefore FE funding, in 2021/22 and beyond.

## Risks and Uncertainty

The College Board continue to closely monitor the medium term financial forecasts, recognising the significant uncertainty in the current environment. The College has identified a number of risks associated with the forecast income and expenditure in the financial forecast return, including:

- The recovery of HE student numbers which, while improving, continue to fall significantly short of prior years. The College has assumed that HE student numbers will improve in 2021/22 and 2022/23, based on enhanced marketing.
- Underachievement of commercial income against prior years due to restrictions on campus delivery, general economic conditions and uncertainty about Flexible Workforce Development Fund (FWDF) income. As a result, the College predicts that it will take three years to return to pre-Covid income levels.
- The FFR assumes that the increase in employers contributions for teacher pensions will be fully funded during the forecast period. If this is not the case, the resulting £0.9 million would increase the reported deficit over the period of the plan.

The key mechanism available to the College to recover the financial position and mitigate additional risks is via a reduction in staffing. While the SFC has approved the College's scheme, no confirmation has yet been received in relation to funding and this therefore presents a further risk to the College's financial forecasts.

### Going concern cash flow forecasting

We have outlined our work in respect of going concern on page 16 of this report. While the College has prepared its financial statements on a going concern basis as required by the FReM for a public body, it is required to consider its ability to meet liabilities as they fall due over the going concern assessment period, being 12 months from the approval of the financial statements.

As part of its financial forecasting arrangements the College has forecast its cash flow at a summary level for the three years of the FFR and has prepared a detailed cash flow to consider the going concern period to February 2022. The College forecasts holding sufficient cash throughout the 2020/21 financial year, although we note that there is a potential volatility risk depending on the future impact of Covid-19 on the College's operations.

# Governance and Transparency

The key features of governance have remained in place at the College and have been operating effectively throughout the Covid-19 lockdown.

The College responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.

The College's Annual Governance Statement continues to disclose areas of non-compliance with the Code of Good Governance for Scotland's Colleges as a result of the significant financial deficit outlined within Financial Sustainability. We note that the College continues to work with the RSB and other UHI Partners to actively support discussions and the development of options that may help secure the financial sustainability of FE and HE provision across the area.

G  
R  
E  
E  
N

## Annual Governance Statement

The College has demonstrated through the year that it has the key requirements for governance. The key aspects of governance arrangements in the year are required to be disclosed in the College's Annual Governance Statement within the financial statements. We reviewed the governance statement within the financial statements against the requirements outlined in the SFC's 2019/20 Accounts Direction and our understanding of governance arrangements in place up to 31 July 2020.

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 2019/20 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; and
- 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.

The College's internal auditor's Corporate Governance review (completed in September 2020) included consideration of the annual exercise to ensure continued compliance with the Code. They found that the process was satisfactory and made no recommendations for improvement.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the Code of Good Governance for Scotland's Colleges. As in prior years, the College has disclosed two areas of non-compliance relating to the financial position:

- C3 - Accountability and Delegation: The Board was unable to agree a balanced budget for 2020/21; and
- C22 - Financial and Institutional Sustainability.

#### Covid-19 Governance Arrangements

Like all other public bodies in Scotland, the College moved to revised governance arrangements at the beginning of the UK lockdown period. Board meetings and other committee meetings scheduled from April 2020 continued via remote working arrangements, and all relevant business continued to be considered as required.

Risks associated with the pandemic have also been considered by the Board. We are satisfied that key information continues to be disseminated to the Board and other committees on a timely basis. The governance statement included an appropriate level of detail on how governance arrangements were maintained during the revised operating period, as a result of Covid-19.

#### Review of Board Effectiveness

All colleges are required to undertake an external effectiveness review at least every 3 years, in accordance with the Code of Good Governance for Scotland's Colleges. The College's external review was planned for 2020, but as a result of the pandemic, and advice from the SFC, this has been delayed until Spring 2021. The College's internal auditors commenced the review at the December Board meeting and expect to report findings by April 2021.

The College conducts its own annual review of the effectiveness of the Board, committees and chairs. The 2020 review was completed via electronic survey, which meant that the response rate was lower than is normally achieved, but was generally positive about governance arrangements.

#### Board member rotation

We note that the Board has experienced a relatively high degree of resignations, with a further four resignations during 2020, and the rotation of the HISA representative in June 2020. This places additional pressure on College members of staff to conduct Board member recruitment and induction procedures, and can impact the effectiveness of decision making. Two Board members have been recruited to date, and the recruitment for a third member, with significant financial experience, is underway.

Governance arrangements were quickly developed to ensure that the College was kept informed of the impact of Covid-19. We were therefore satisfied that Board members had sufficient information to continue to fulfil their role.

The College continues to work with the RSB and other UHI partners to develop sustainable options for the delivery of FE and HE. This may include college mergers and shared staffing, including within finance.

### Regional Strategic Body: Partnership Arrangements

During 2019/20, the SFC conducted assessments of the effectiveness of each of the three RSBs in Scotland. The review at UHI considered the extent to which the RSB is meeting its core statutory duties and wider aims of regionalisation. It also considered the extent to which governance structures and lines of accountability are clear and facilitate good working practices. The SFC's findings note that:

- The regional governance arrangements have been able to deliver regional benefits and added value for students and other stakeholders, including employers but that the RSB is yet to realise its full potential and deliver the significant wider aims of regionalisation, including curriculum planning, driving further regional coherence, strategic alignment and enhanced offers for students and stakeholders.
- Historic initiatives to reform the region's governance structures and secure financial sustainability and efficiencies have not yet delivered the degree of transformation envisaged. Proposals for change including mergers or more vertically integrated models, have not commanded support from all stakeholders. The current structures and ways of organising the delivery of education across UHI are expensive and unwieldy at a time when public funds will become increasingly pressured.

SFC recommended that UHI considers consolidation, shared services, recalibrated roles and responsibilities, and options to ensure it delivers a more integrated tertiary institution that preserve local presence and reach, as well as seeking more efficient modes of delivering provision that streamline management costs and support front-facing services, courses and opportunities for students and local communities. The College has worked with other UHI Partners to actively support discussions and the development of options that may help secure the financial sustainability of FE and HE provision across the area.

### Enquiries of those charged with governance

In line with previous years, we formally wrote to the Chair of the Audit and Risk 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 and Risk Committee. For 2019/20, the internal auditor's opinion notes that, 'the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money.'



## Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the audit and risk committee

D – Adjustments and unadjusted errors identified during the audit

E – Follow up of prior year recommendations

F – Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

<p>Corporate Governance</p>	<p>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, risk and governance committees or equivalent) in monitoring these arrangements.</p>
<p>Financial Statements and related reports</p>	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.</li> <li>• maintaining proper accounting records.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p>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.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>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.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• such financial monitoring and reporting arrangements as may be specified</li> <li>• compliance with any statutory financial requirements and achievement of financial targets</li> <li>• balances and reserves, including strategies about levels and their future use</li> <li>• how they plan to deal with uncertainty in the medium and longer term</li> <li>• the impact of planned future policies and foreseeable developments on their financial position.</li> </ul>
<p>Best Value</p>	<p>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.</p>

# 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 2019 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 May 2020.

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 College consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee in November 2020.

## Audit Fees

	2019/20	2018/19
Component of fee:		
Auditor remuneration - expected fee	£16,130	£13,570
Additional audit procedures (see below)	£6,400	£5,961
Audit Scotland fixed charges:		
Pooled costs	£920	£780
Contribution to Audit Scotland costs	£880	£820
Total fee	£24,330	£21,131

The expected fee for each body is set centrally by Audit Scotland, and assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

The 2019/20 audit required additional audit procedures to address the lower level of materiality applied, the need for a reassessment of all audit risks and the additional scrutiny around financial statement disclosures impacted by the direct and indirect consequences of Covid-19.

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 2020 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020). This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

The disclosures are extensive. For example, they explain 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 (AOB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AOB meets monthly and also holds an annual strategy session. The AOB reports to the EY UK Board. The AOB 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 at the IJB since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920>.

# Appendix C: Required communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the audit, risk and governance 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>Planning and audit approach</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>Annual Audit Plan Addendum</p>
<p>Significant findings from the audit</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>Going concern</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>Misstatements</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>Fraud</p> <ul style="list-style-type: none"> <li>• Enquiries of the audit, risk and governance 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>Consideration of laws and regulations</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, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the 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
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>No significant matters have been identified.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report – Appendix B</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report – no significant deficiencies reported</p>
<p>Subsequent events</p> <p>Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>

# Appendix D: Adjustments identified during the audit

This Appendix sets out the adjustments processed in the financial statements finalisation. There were no significant unadjusted audit differences identified.

Adjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	Adjustment relating to late SFC confirmation of 2019/20 job evaluation funding	DR Expenditure £242,049 CR SFC Income £242,049	DR Accrued income £242,049 CR Accrued Expenditure £242,049
2	Adjustment relating to 2018/19 job evaluation funding	DR Expenditure £221,897 CR SFC Income £221,897	DR Accrued income £221,879 CR Accrued Expenditure £221,897

Unadjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	Historical reserve variation to general ledger		Dr Revaluation Reserve £10,000 Cr General Reserve £10,000
2	Unrecorded assets identified during testing	Dr Expenditure £12,406 Cr Revenue (£12,406)	Dr Debtors £31,500 Cr Deferred income (£31,500)
3	Accruals no longer required	Cr Expenditure (£48,875)	Dr Accruals £48,875
4	Judgemental provision for outstanding tuition related debtors	Dr Bad debt written off £40,729	Cr Bad Debt Provision (£40,729)
	Overall impact	(£8,146)	£8,146

# Appendix E: Prior Year Action Plan

We recognise that a number of areas of planned progress have been delayed or impacted as a result of the response to the pandemic. We have therefore outlined below where previous recommendations have not yet been fully addressed by management. We will continue to monitor areas of focus in 2020/21. We have graded these findings according to our consideration of their priority

## Classification of recommendations

Classification of recommendations			
No.	Findings and recommendation	Management response/implementation timeframe	Our assessment
	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.
1	<p>The SORP will be revised with effect from 2019/20.</p> <p>The College should perform a formal impact assessment on the application of the revised SORP in 2019/20.</p> <p style="text-align: right;">Grade 3</p>	<p>Agreed.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: 31 March 2020</p>	<p>The College prepared a good draft set of financial statements.</p> <p>Our assessment: <b>Complete</b></p>
2	<p>The College has highlighted within its Financial Forecast Return that it continues to face significant and ongoing financial challenges. This remains a significant risk and urgent work must be undertaken in partnership with UHI to deliver a sustainable financial plan.</p> <p>The College must work with the RSB to identify medium term approach to delivering financial sustainability which addresses key areas of risk including the maintenance of the College's technology and estates.</p> <p style="text-align: right;">Grade 1</p>	<p>Agreed.</p> <p>Responsible officer: Principal</p> <p>Implementation date: Immediate and ongoing with review by 31 March 2020</p>	<p>The College has continued to develop its medium term financial planning, including the submission and updating of a Financial Forecast Return for 2020/21 – 2022/23. As we outline within Section 3 of this report, a number of significant risks and uncertainties remain and this will therefore continue to be an area of focus for the Board.</p> <p>Our assessment: <b>In progress</b></p>

No.	Findings and recommendation	Management response	Management response / Implementation timeframe
3	<p>The College did not achieve the savings anticipated from a Voluntary Severance Scheme implemented in 2016. The College has ambitious plans for future growth, but cannot currently demonstrate a financially sustainable workforce plan. Strategic and financial planning must be underpinned by a robust workforce plan.</p> <p style="text-align: right;">Grade 1</p>	<p>Agreed.</p> <p>Responsible officer: Director of HR &amp; OD</p> <p>Implementation date: 31 March 2020</p>	<p>The College received SFC and Board approval for its proposed Voluntary Severance Scheme in November 2020. The Scheme has not yet opened as a result of uncertainty about funding.</p> <p>Our assessment: <span style="color: orange;">In progress</span></p>

# Appendix F: 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 2019/20 audit cycle.

	Audit Activity	Deliverable	Timing
FEB	<ul style="list-style-type: none"> <li>Review progress of NFI exercise</li> </ul>	Submit NFI Questionnaire	28 February 2020
MAR			
APR	<ul style="list-style-type: none"> <li>Audit planning and setting scope and strategy for the 2019/20 audit</li> </ul>	Annual Audit Plan	April/May 2020
MAY			
JUN	<ul style="list-style-type: none"> <li>Walkthrough Visit</li> </ul>	Completion of internal documentation	June 2020
JUL			
AUG			
SEP	<ul style="list-style-type: none"> <li>Year-end substantive audit fieldwork on unaudited financial statements</li> </ul>	Audited Financial Statements	November/December 2020
OCT			
NOV	<ul style="list-style-type: none"> <li>Conclude on results of audit procedures</li> </ul>	Issue Annual Audit Report	31 January 2020
DEC			
	<ul style="list-style-type: none"> <li>Issue opinion on the College's financial statements</li> </ul>	Submit Audit Scotland minimum dataset request	31 January 2020

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](https://ey.com).

### Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2021 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

[ey.com](https://ey.com)