



# Annual Audit Report

to the Board of Management and the  
Auditor General for Scotland  
New College Lanarkshire  
Year ended 31 July 2020





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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.*



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7 December 2020

Dear Members

**Annual Audit Report – Year ended 31 July 2020**

We are pleased to present our Annual Audit Report for the year ended 31 July 2020. 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 18 May 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the continued challenges and restrictions of COVID-19. 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

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# 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 2020 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 7 December 2020.

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 issued an unqualified opinion, without modification, on the financial statements. As outlined in more detail in section 2, we have included an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainties disclosed in the financial statements.

### Opinion on regularity

We issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.

### Opinion on other requirements

We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation

### Wider scope work

We concluded as follows against 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, but individual college financial information is;
- The Lanarkshire Board has adequate financial planning arrangements in place including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over their new five year financial plan, without significant additional funding or cost cutting, remains a significant risk;
- New College Lanarkshire has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board. In accepting the SFC recommendation that the RSB should be dissolved, considerable work now needs to be undertaken to ensure all new arrangements are in place properly and meet good governance standards; 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)

## Status of our audit work

We have completed our work on the financial statements and wider scope work for the year ended 31 July 2020.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in May 2020. As part of our Audit Progress Report in September 2020 we provided details of further work we intended to perform around the governance arrangements for the impact of Covid-19. We have not made any further changes to our audit approach.

## 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

## 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 i.e., 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 £1,123k for the College and £1,522k 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 £1,141k 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	1,123	1,141	1,522	1,565
Performance materiality	899	913	1,217	1,252
Trivial threshold for errors to be reported to the Audit and Risk Committee	34	34	46	47

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 fourth time for the 2019/20 year. The consolidated financial statements incorporate the results of New College Lanarkshire, South Lanarkshire College and Amcol Scotland Limited, 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 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management 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 all users of financial statements and can be subject to judgements as to when income for services should be recognised.

This risk only applies to the non-grant income generated by the College. The risk has been rebutted in relation to grant income received by the College, given the highly regulated nature, and therefore, low inherent risk of this income.

We consider that there is also a higher risk of non-recoverability of debts arising from the impact of COVID-19 on the economy and therefore expected credit loss provisions should be carefully considered, using forward looking data where appropriate.

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#### 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;
- Testing material year end receivables;
- The judgements made by management in determining when income for services is recognised and whether the criteria for recognising provisions are satisfied; and
- expected credit loss provisions applied to receivables at the year end, considering the appropriateness of judgements made by management.

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#### Audit conclusion

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

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## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Valuation of land and buildings

#### Description of the risk

The financial statements contain material entities for land and buildings. Land and buildings are due to receive a full valuation at 31 July 2020. It is likely that the revaluation amounts will be material to the financial statements. Valuations will be performed by an expert valuer.

The Royal Institute of Chartered Surveyors (RICS) issued guidance to valuers in March 2020, recognising that valuers are likely to disclose a material calculation uncertainty arising from the COVID-19 pandemic, due to the lack of reliable and contemporary market and cost data available to valuers. There is a potential that this situation may still exist at the point the College requires a valuation to take place.

#### How we addressed this risk

We addressed this risk through performing work over:

- Examining the professional qualifications of the valuer;
- Challenge and substantiate the assumptions and the appropriateness of the data of the valuation used by your valuer in completing the valuations;
- Considering the impact of any uncertainty arising from the professional valuation of College land and buildings, assessing against third party benchmark where appropriate;
- Ensure that valuations and impairments have been completed on the correct basis for each item and that movements are in line with expectation; and
- Assess whether the report produced by the valuer has been correctly reflected in the accounts.

#### Audit conclusion

The external valuer has included a material valuation uncertainty paragraph within their valuation report. The College has included details of the material valuation uncertainty in the notes to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. Our opinion on the Region and College's financial statements is not modified in respect of this matter.

In 2020 a new valuer was appointed by the College, providing alternative disclosures in their valuation report. This highlighted that the 2018 valuation had been misstated as VAT had not been included in the valuation that was incorporated into the financial statements. VAT should have been included as the College is unable to reclaim VAT on capital spend. This has resulted in a prior year adjustment of £19.1m to increase the fixed asset value and the revaluation brought forward position. As a result of this increase, there was an associated increase to the depreciation charge of £554k for 2019 and 2020 which have been reflected in the financial statements. There is no impact on the underlying operating position from posting the prior year adjustment. Details are shown on page 14 of this report.

Satisfactory assurance has been gained in respect of the valuation of land and buildings risk. We have no further 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
	<p>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.</p> <p>The College's share of the SPF's underlying assets and liabilities is identifiable and is recognised in the accounts.</p> <p>Given the scale of the liability recognised, a misstatement in the reported position could be material to the financial statements. The movement in the valuation of the liability could be made more volatile by the impact of the COVID-19 pandemic.</p>

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### 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

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### Audit conclusion

SPF have disclosed a 'material valuation uncertainty' (MVU) in their audited financial statements with regards to the value of property investments held at 31 March 2020. This relates to limited market data being available at that time as a consequence of COVID-19. We conclude the New College Lanarkshire and Region share of these assets is considered material and as such disclosure to highlight the MVU should be included within the Regional financial statements. Management have recognised this material valuation uncertainty in the notes to the financial statements and as such we intend to include a corresponding emphasis of matter paragraph within our Audit Report.

There have been no other significant findings arising from our review of the defined benefit liability valuation and disclosures in the financial statements.

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## 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.

South Lanarkshire College follow a different frequency of revaluations and their estate will not be revalued as at 31 July 2020. We will therefore consider the judgements made by South Lanarkshire College regarding their land and building valuation and whether those would have a material impact on the regional financial statements as part of the consolidation process.

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#### 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.

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#### Audit conclusion

We have considered the judgements made by South Lanarkshire College in respect of their land and buildings valuation as at 31 July 2020 and deem this to be satisfactory.

We consider that the preparation of the consolidated regional 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.

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## 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

There have been a number of changes in governance during the reporting period. The former Principal, Martin McGuire, left the College on 6 September and was replaced by an Interim Principal, Annette Bruton, who remained in post until Christopher Moore was appointed as Principal on 11 November 2019.

Ronnie Smith was appointed as Chair of the Board on 11 August 2019, replacing the Interim Chair, Keith Fulton. There have also been new Board member appointments during the year.

Aileen McKechnie was appointed as the Principal of South Lanarkshire College on 2 March 2020, following the retirement of Stewart McKillop.

#### 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 2019/20 regional financial statements; and
- whether the disclosures required in the financial statements in relation to those who have left the regional board, or changed role during the year, including remuneration, are complete and appropriate.

#### Audit conclusion

There have been no significant findings from our work. The disclosures made by the College are deemed appropriate and in line with requirements.

## 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 2019/20, appropriately tailored to the College's circumstances.

The New College Lanarkshire and Regional financial statements were received on 8 November, with the annual report being received on 9 November – our audit fieldwork began on 19 October for the College only accounts and on 16 November for the consolidation. 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.

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.

### Significant matters discussed with management

Throughout the year, we have had ongoing discussions with New College Lanarkshire over the Regional Governance arrangements for the RSB. See page 13 for further details.

### Significant difficulties during the audit

Despite the undoubted impact of the pandemic on both the preparation and completion of the draft accounts, which were completed for audit in line with agreed timetables, as well as our audit work, during the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We would like to express our thanks to management and officers for their co-operation throughout the audit.



### 3. INTERNAL CONTROL RECOMMENDATIONS

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

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist 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 below. However, as this point is considered ongoing as it not complete at the point of writing, it has been re-raised in this report.

#### 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 in 2018/19. An update for 2019/20 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, 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.

##### 2019/20 update

In recent years, the RSB has taken measures to review and enhance the regional governance arrangements, with a Joint Finance Working Group being established to work together on a Regional basis, and a Regional Collaboration Framework and Plan being developed.

The commitment to progress in this area has been encouraging, and the new Principals of the Colleges and Chair of the RSB have been continuing this progress through 2019/20 where possible.

A report issued by the Scottish Funding Council in October 2020 entitled “Review of Regional Strategic Bodies – Lanarkshire Board” has recommended that the Regional Strategic Body be dissolved, with the Colleges operating independently. A special Board meeting was held in November 2020 to discuss the recommendation, which the Board approved.

The above will impact on both the governance and funding arrangements for the region, and it will be challenging to unravel the current position. It is imperative that any proposed amendments are carefully and robustly considered, and we will continue to support the Colleges and their respective Boards as they navigate this transition.

Regional governance arrangements were also raised as a significant risk in the Wider Scope – Governance and Transparency area – see page 26 for further details.

## 4. SUMMARY OF MISSTATEMENTS

### Adjusted misstatements

We set out below the misstatements identified above the level of trivial threshold of £34k for the College and £47k for the Region.

As noted at page 8, the 2020 valuation highlighted that the 2018 valuation had been misstated as VAT had not been included in the values in the financial statements. As New College Lanarkshire is partially exempt from VAT, the revalued amount in 2018 should have been inclusive of VAT at a rate of 20%. As such, the land and buildings should have a higher value reflected in the accounts for the 2018 valuation and consequently the opening 2019 valuation. The impact of this error caused an understatement of net assets reported at 31 July 2018 of £19.1m and at 31 July 2019 £18.6m after the deduction of depreciation charge. The resulting adjusted misstatements to the College and Regional financial statements are noted below.

		Statement of Comprehensive Income and Expenditure		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
<b>2019 adjustments</b>					
1	Dr: Land & buildings cost			19,146	
	Cr: Revaluation reserve				19,146
	Being increase to land & buildings valuations as a result of the inclusion of VAT				
2	Dr: Depreciation charge (I&E)	554			
	Cr: Depreciation charge (BS)				554
	Dr: Revaluation reserve			554	
	Cr: Income & expenditure reserve				554
	Being depreciation charge on increased value of assets and subsequent transfer to the revaluation reserve				
		<b>554</b>	<b>0</b>	<b>19,700</b>	<b>20,524</b>
<b>2020 adjustments</b>					
3	Dr: Depreciation charge (I&E)	554			
	Cr: Depreciation charge (BS)				554
	Dr: Revaluation reserve			554	
	Cr: Income & expenditure reserve				554
	Being depreciation charge on increased value of assets and subsequent transfer to the revaluation reserve				
4	Dr: Revaluation reserve			18,038	
	Cr: Land & buildings revaluation		18,038		
	Being correction of revaluation gain incorporating prior revaluation gain and depreciation				
		<b>554</b>	<b>18,038</b>	<b>18,592</b>	<b>1,108</b>

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £34k and £47k for the College or Region

### Disclosure amendments

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

- Corrections to the Remuneration and Staff Report disclosures
- Disclosures around the prior year adjustment
- Disclosures around the material valuation uncertainties in respect of the pension fund property assets and land & buildings valuations



## 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 management;
- financial sustainability;
- governance and transparency; and
- value for money.

Dimension	Description	Our approach
Financial Management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	We have considered: <ul style="list-style-type: none"> <li>• the monitoring of the effectiveness of internal control arrangements</li> <li>• whether the College's budgetary control system is timely and accurate</li> <li>• whether and how the College has assessed their financial capacity and skills.</li> </ul>
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"> <li>• the financial planning system in place for short, medium and long term periods</li> <li>• the adequacy and accuracy of financial reporting arrangements</li> <li>• the reasonableness of affordability assumptions made in financial planning</li> <li>• the extent to which the financial planning assumptions have been updated and affected by the COVID-19 pandemic.</li> </ul>
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"> <li>• the effectiveness of internal control arrangements</li> <li>• the appropriateness of disclosures made in the Governance Statement</li> <li>• whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met</li> <li>• the response to the COVID-19 pandemic and whether this has involved changes to the governance of the College.</li> </ul>
Value for Money	Value for money concerns using resources effectively and continually improving services.	We have considered: <ul style="list-style-type: none"> <li>• the College's evidence of providing value for money</li> <li>• the focus on improving value for money and the pace of change at the College.</li> </ul>

In 2019/20 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, but individual college financial information is.

### Financial performance

#### FE/HE SORP position

	Region 2019/20 £'000	College 2019/20 £'000	Region 2018/19 £'000	College 2018/19 £'000
Operating income	73,244	52,531	75,455	55,406
Staff costs	(58,617)	(41,929)	(54,249)	(39,296)
Operating expenditure	(19,655)	(15,125)	(22,385)	(17,426)
<b>Operating Deficit for the year (FE/HE SORP basis)</b>	<b>(5,036)</b>	<b>(4,523)</b>	<b>(1,179)</b>	<b>(1,316)</b>

Despite a deficit being shown in the FE/HE SORP financial position over both years:

- Had it not been for the impact of the Covid-19 pandemic, both New College Lanarkshire and South Lanarkshire College, and therefore the Region would have highly likely achieved their financial targets as spending was in line with the plan at the point or budget re-workings; and
- The student credit target was exceeded in the Region, confirming the level of funding in the financial statements.

Operating income has reduced by £2.2m for the Region in 2019/20. 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 and so were not replicated in 2019/20. Other income has also decreased as a result of Campuses closing for the last 4.5 months of the year. This resulted in a decrease in third party and hospitality income. This decrease was offset by the receipt of grants totalling £890k from the Coronavirus Job Retention Scheme for the Region.

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. In addition, teaching pension contributions rates increased from 17.2% to 23% in September 2019 which has had a significant impact. These increase are reflected across the College sector in Scotland.

Operating expenditure has reduced by around £2.7m for the Region. Around £1.1m relates to a reduction in teaching costs due to activities changing in light of Covid-19 restrictions. Premises costs also decreased by around £0.9m due to the closure of the campuses and less maintenance costs. Further decreases in residences and catering, childcare and administrative costs are also as a result of the closure of the Colleges.

South Lanarkshire College reported a deficit in the year of £661k, while Amcol Scotland Limited made a surplus of £148k which improved the overall Regional result.



## 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 2019/20 £'000	College 2019/20 £'000	Region 2018/19 £'000	College 2018/19 £'000
<b>Deficit before other gains and losses</b>	<b>(5,036)</b>	<b>(4,523)</b>	<b>(1,179)</b>	<b>(1,316)</b>
<b>Add back:</b>				
- Depreciation (net of deferred capital grant release)	1,884	1,605	1,955	1,680
- Pension adjustment – FRS 102 staff cost adjustment	3,078	2,428	3,076	2,435
- Pension adjustment – net interest cost	360	283	178	131
- Non-cash early retirement adjustments	51	45	64	45
<b>Deduct:</b>				
- Exceptional re-structuring cost – transformation funding	-	-	(2,600)	(2,600)
<b>Adjusted operating surplus/(deficit)</b>	<b>337</b>	<b>(162)*</b>	<b>1,494</b>	<b>375</b>

The Accounts Direction issued by the SFC for 2019/20 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 not yet been obtained by the College at the time of writing.

\* - The College position above represents New College Lanarkshire only, if the Amcol results were to be included with New College Lanarkshire, (as would be the case if the College reported separately and not on a Regional basis), a small surplus would have been recorded

The table above indicates that once the non cash and other applicable adjustments are made, the Region has achieved a surplus while the College has made a small deficit in the current year. Both positions have decreased when compared with the prior year as a result of the impact of Covid-19 which was to be expected.

### **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 2019/20 £'000	College 2019/20 £'000	Region 2018/19 £'000	College 2018/19 £'000
Operating deficit for the year (FE/HE SORP basis)	<b>(5,036)</b>	<b>(4,523)</b>	<b>(1,179)</b>	<b>(1,316)</b>
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	<b>(4,062)</b>	<b>(3,660)</b>	<b>(205)</b>	<b>(453)</b>



## 5. WIDER SCOPE FINANCIAL MANAGEMENT (CONTINUED)

The table overleaf shows a deficit when the impact of the depreciation budget is taken as the only adjusting factor to the financial position for both the Region and College. The operating position table at the top of the page shows an operating deficit for 2019/20 for the College and a reduced surplus for the Region when compared with the prior year. The Colleges consider that they are operating sustainably within the funding allocation, albeit this is subject to the unexpected and significant financial impact of COVID-19 being mostly contained to 2019/20.

### 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, though the impacts of Covid-19 understandably reduced the expected outcomes.

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 faculty budget forecasting & monitoring during the year concluded that effective budgeting takes place within the College and that the Budgeting Policy and Procedure are adhered to.

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.



## 5. WIDER SCOPE FINANCIAL MANAGEMENT (CONTINUED)

### 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. No significant findings or issues arose from NFI during the 2019/20 audit process. In light of changes to management and governance at the College, we have discussed with management the need for a presentation in advance of the NFI exercise in 2021 to introduce the NFI process for members, to ensure everyone is aware of the process and how it impacts the Colleges. We will take this forward in early 2021.



## 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 including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over their new five year financial plan, without significant additional funding or cost cutting, remains a significant risk.**

### Identified significant risks to our wider scope work

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

#### Financial Sustainability

#### Description of the risk

Our 2018/19 Annual Audit Report highlighted that New College Lanarkshire had made progress with regards to financial sustainability during the year, with adherence to the 5 year Lanarkshire Business Plan. Funding of over £3m was obtained during 2018/19 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.

We noted that the Business Plan is being closely monitored by management, the Board and the SFC and that targets were consistently met during the year.

The COVID-19 (Coronavirus) pandemic has resulted in the temporary cessation of operations of public sector organisations, including colleges, although the College is continuing to deliver as many online courses as possible and is engaging with the student population regularly throughout this period. There is significant increased uncertainty around current and future revenue for colleges due to loss or partial loss of funding as a result of credit targets not being met and from a reduction in commercial activities. The College is only partially able to mitigate this risk through cost saving actions and is also now considering the use of Government measures. The financial plans set by the College in prior years will require to be re-set with new funding assumptions as and when they become clearer.

## 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 in the period;
- the financial reporting arrangements in place at the College and whether the Budget Monitoring Group (which effectively now consists of the full Executive Team), interacting with the Budget Monitoring Task Force, have been conducting their reviews as expected; and
- how management have considered the longer term implications of the COVID-19 outbreak and if this has been factored into the Business Plan.

#### Wider scope conclusion

The College has prepared a three year forecast which indicates a significant adjusted operating deficit in 2020/21, but returning to a surplus for 2021/22 and 2022/23. This has been approved by the SFC. The College has made progress in recent years with adherence to their Business Plan, but it is recognised that the current year has created a challenging landscape for the College sector, and that the plan has run its course. New College Lanarkshire published their new five-year strategy in November 2020 and work will be done in the coming months to review and refresh the Business Plan to integrate with the requirements of the strategy.

The Business Plan has been closely monitored, by management, the Board (including the Budget Monitoring Group) and the SFC, with targets being met throughout the year. The SFC previously met monthly with the College to discuss progress, but these meetings have reduced due to the improved performance of the College.

Despite the success to date, significant savings still require to be made by the College, primarily through VS schemes, over the coming years. Ongoing support will be required from the SFC in order to create these savings, 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, with the ongoing uncertainty regarding the current situation and future College funding from the SFC coupled with the significant deficit expected in 2020/21 and further savings to be achieved, it is considered that financial sustainability remains a significant risk.

## 5. WIDER SCOPE FINANCIAL SUSTAINABILITY (CONTINUED)

### Financial Planning

In 2018, the Lanarkshire Board prepared a 5 year Regional Business Plan which was compiled in close collaboration with the SFC. The plan included 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 which was received in the prior year. The transformation funding helped to ensure that the College would 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 is to 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. In 2019/20, these meetings have become less frequent due to the evolution of the plan as it reaches the half way point. To date, financial performance has been in line with the Business Plan, with variances between some of the categories, but an overall positive result. This remained positive despite the impact of Covid-19, with earlier withdrawal rates improving, hence not impacting on credit income.

The College also prepares a Financial Forecast Return (FFR) which is submitted to the SFC annually. The SFC normally request this to cover 5 years, but in the current year, given the level of uncertainties relating to financial planning, the SFC has requested only a 3 year FFR which has been considered below. This comprises the consolidated figures for New College Lanarkshire and Amcol Scotland Limited. The FFR for 2020 is in line with the underlying operating position of the Business Plan, but has been updated to reflect the impact of Covid-19 and the planned recovery of the College over the next year. South Lanarkshire College submit their own FFR to the SFC and there is no requirement for a regional return to be made.

	Forecast 2020/2021 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000
Total Income	55,533	58,704	59,037
Staff costs	43,173	42,788	41,974
Other expenditure	16,339	16,927	17,427
<b>Operating deficit before other gains and losses</b>	<b>(3,979)</b>	<b>(1,011)</b>	<b>(364)</b>
Operating position adjustments (e.g. non cash and exceptional items)	1,057	1,112	1,112
<b>Adjusted operating (deficit) / surplus</b>	<b>(2,922)</b>	<b>101</b>	<b>748</b>

The key assumptions in the FFR 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;
- Additional funding to cover the increase in STSS employer contributions is included until 2022/23;
- Severance schemes will be fully funded by the SFC;
- Other income includes funding from the Coronavirus Job Retention Scheme and reductions in commercial income as a result of Covid-19;
- Staff costs include a cost of living increase of 2% and an increase to pension costs – costs should be offset by VS savings; and
- Inflation is assumed to be 2% for non-payroll.



## 5. WIDER SCOPE

### FINANCIAL SUSTAINABILITY (CONTINUED)

Following submission of the FFR to the SFC in July 2020, a revised FFR presentation was provided to and approved by the SFC using more up to date information – the revised operating positions for each year are as follows:

	Forecast 2020/2021 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000
<b>Revised adjusted operating (deficit) / surplus</b>	<b>(1,238)</b>	<b>1,051</b>	<b>1,698</b>

Increased income is expected to arise from increases to Higher Education fees, SDS income and FWDF income. Staff cost savings are expected to arise from a recruitment freeze and a reduction in temporary teaching staff costs, with several small non-staff savings also expected to be made. Plans to achieve these savings are still at an early stage.

The original and revised FFR's show a deficit for 2020/21, however the SFC has accepted that this will be a recovery year for the College sector, and consider that fuller effects of Covid-19 will be felt during this period. The SFC have confirmed that they will not claw back funding for Colleges that do not meet credit targets in these years as a result of Covid-19. The College did however exceed their credit target in 2019/20 and expect to meet the 2020/21 target also.

The FFR does not include potential receipts in respect of an insurance claim for business interruption. The maximum cover is to the value of £1m and the College has received £200k in advance payments to date, although the claim has not yet been agreed. This is ongoing and the College is hopeful that they will be successful in claiming towards the full value.

Planned voluntary severance schemes in the 3 years to 2022/23 will help to reduce overall costs, and this is in line with the Business Plan. It is expected that these will be funded by the SFC as was set out in the original business plan, but this is not a guarantee. We note that the standard SFC assumptions for voluntary severance schemes in the FFR this year were to presume funding of 6 months salary for those participating in schemes, not 12 months as has previously been the case. Careful consideration will have to be made when funding allocations are confirmed in this respect.

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. With the changes made in 2019/20 with regards to online teaching and different methods of delivery, the College is in a better position to reconfigure how they approach teaching to ensure it continues to meet the needs of the students.

The Business plan also seeks to increase non-SFC income, where possible. This will be extremely difficult for the coming year with the constraints of Covid-19 restrictions. Catering and residences income is expected to halve to £600k for 2020/21 due to reduced capacity and SDS income is expected to reduce.

A new 5 year strategy is currently being developed to build on the original Business Plan, which has now been acknowledged as out of date due to the current circumstances. The College will aim to continue to monitor progress carefully and plan effectively to ensure they can return to a balanced budget in the years to come, as indicated by their FFR.

They will continue to report progress through the most appropriate Board committee. Tighter controls have been, and will continue to be applied internally over budgeting processes, and cost controls. A Budget Monitoring Task Force has been set up and detailed monthly reviews of management accounts by all senior staff, with a more enhanced analysis are being undertaken. Reporting at the Board Committees is evident throughout the year, so it is clear that this is being treated as high priority. As previously noted, the Internal Audit review of budget forecasting during the year was positive.

#### Asset Management and Estates Strategy

Each College has a significant estate, leading to a value of £172m being recorded in the consolidated financial statements for land and buildings as at 31 July 2020. 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 and which is in the process of being updated.

A formal Estates Strategy 2018-2028 was developed in 2018 for New College Lanarkshire which will be reviewed annually by the Vice Principal: Resources and the Head of Estates. 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. £944k 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. £463k 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. In accepting the SFC recommendation that the RSB should be dissolved, considerable work now needs to be undertaken to ensure all new arrangements are in place properly and meet good governance standards.**

### 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

##### Regional arrangements

The Board of New College Lanarkshire, is also the Regional Strategic Body for Lanarkshire as set out in the Lanarkshire Colleges Order 2014. The governance arrangements in place at New College Lanarkshire as the RSB for Lanarkshire meet the requirements set out in the Lanarkshire Colleges Order.

In prior years we have raised a significant risk to our wider scope conclusion on governance and transparency with regard to the regional arrangements in place for the Lanarkshire region. We consider that this risk remains with the arrangements as they stand, which may not be optimal or effective, albeit in line with legislative requirements. We recognise that progress has been made in recent months, with a number of regional documents being produced. We will continue to monitor and assess changes made to the governance structure of the Lanarkshire Region.

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#### How we addressed the risk

We have addressed the risk by considering:

- changes made and planned to the overall governance arrangements of the Lanarkshire region.
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## 5. WIDER SCOPE GOVERNANCE AND TRANSPARENCY (CONTINUED)

### Identified significant risks to our wider scope work (continued)

#### Governance and transparency

##### 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 and a summary of this has been included within the Board of Management's Report in the Annual Report.

We recognise that a number of activities have taken place recently that 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. These documents, along with consideration of recommendations made during an operational regional review undertaken by an external consultant in September 2019, have sought to improve arrangements in place and allow the region to demonstrate the benefits they are obtaining from regional working.

In October 2020, the SFC published their report - "Review of Regional Strategic Bodies – Lanarkshire Board", that included a number of recommendations. The chief recommendation being that *'the Regional Strategic Body should be dissolved and both colleges manage themselves as separate regional entities, forming a direct relationship with SFC'*. The Lanarkshire Board held a Special Board Meeting on 9 November and voted to support the SFC recommendation. Similarly, the SLC Board held a Special Board Meeting on 11 November, also voting to support the SFC recommendation. Both Colleges will now work with SFC to take this recommendation forward. Appropriate arrangements will require to be made between NCL, SLC and the SFC to ensure the transition is smooth and appropriate governance arrangements remain in place during any transition period.

There are many elements that will require to be considered and changed in the coming months to facilitate the dissolution of the RSB. This will be a challenging period and it is imperative that any proposed amendments are carefully and robustly considered, with reasonable timeframes for delivery applied. We will continue to support the Colleges and their respective Boards as they navigate this transition.

### 3. WIDER SCOPE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### Key area of focus

As part of our planning procedures we considered whether there were any areas of our wider scope work that would warrant a more detailed review. The result of our review is as noted below.

Covid-19 impact and actions	Description of the area of focus
	Considering the impact of Covid-19 on the College and steps taken to ensure continued appropriate governance was in place throughout.

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#### How our audit addressed this area of focus

We considered the following:

- Decision making processes around closure of the College, and communication to those affected;
- Board and committee reporting throughout lockdown and on an ongoing basis, including the administration of any ad hoc meetings required to react to the fast-moving situation;
- Management arrangements for distance learning, and ongoing communication protocols with students and staff, including consideration of wellbeing; and
- Processes in place for re-opening to ensure adherence to current Government guidelines.

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#### Audit conclusion

The College closed to face-to-face teaching on Tuesday 17 March, with measures put in place to facilitate online learning for subjects where this was feasible.

The Board meeting scheduled for 23 March 2020 was postponed due to COVID-19. The Chair of the Board and the Board Secretary subsequently convened a special on-line meeting of the Chairs' Committee on the 15th April 2020. The Chairs' Committee has delegated authority from the Board and this meeting considered the business of the Board for that postponed meeting. The Board moved all its Committees and Board meetings on-line for the time being and all other scheduled meetings have been held and the business of the Board conducted as usual. There have been additional meetings of the R&GP and Finance Committees in this period and there have been meetings of the Chairs' Committee.

The Academic year began online on 24 August 2020, with students welcomed back to the College in September. Detailed guidance is available on the College's website in relation to measures in place at the College for staff and students to ensure safety.

Face-to-face teaching is reduced, remote working and social distancing remains in place. The College continues to review the basis of education provision, ensuring adherence with government guidelines.

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## 5. WIDER SCOPE

### GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### Board and Committees

During the year there have been several changes to the governance and management of the College. Ronnie Smith was appointed as Chair of the Lanarkshire Board on 11 August 2019, and there were 5 new Board members appointed during the year (including the new Principals of SLC and NCL). There were also 5 Board resignations during the year, although 3 of these related to resignation of the Principals of NCL and SLC and the Interim Principal at NCL.

During the year, the Audit and Risk Committee has appointed a new member, although one meeting was not quorate at the start of the year.

In addition to the previous 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.

In addition, an Interim Principal, Annette Bruton, was appointed in September 2019, following the Principal's departure until the new Principal started working at the College in November 2019. Annette worked with the Senior Management Team to ensure that continuing focus was given to the Business Plan, before formally taking on the appointment of Interim Principal in September 2020. 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.

#### 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 22 members, 11 male and 11 female, including the Chair. The College is aware of the objective of the Gender Representation on Public Boards (Scotland) Bill and has met the gender balance recommendations for the Board.

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 2019/20 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.

## 5. WIDER SCOPE

### GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### Proposals for governance changes

In October 2020, the SFC published a number of reports following a review of Scotland's Colleges and Universities. As part of this they produced an overview report of their Review of Regional Strategic Bodies and an individual report on each of the three multi college RSBs in Scotland – Glasgow Colleges Regional Board, Lanarkshire Board and University of Highlands and Islands. The report on the Lanarkshire Board outlines the achievements made since formation, but ultimately recognised that while the Lanarkshire Board is meeting its core statutory requirements, the benefits that were envisaged from the regional governance arrangements have not been delivered.

The SFC report states that the current arrangements are sub-optimal. They are not well understood, or accepted and lead to friction. Efforts to make the governance arrangements more effective will be time-consuming and unlikely to provide benefits to students or local communities. Recognising that there is no widespread appetite for a merger of the two Colleges, the SFC have recommended *'that the RSB should be dissolved and both colleges manage themselves as separate regional entities, forming a direct relationship with SFC.'* Dissolution of the RSB will require Scottish Government approval and the passing of primary legislation to revoke the current Lanarkshire Order. Given the current climate, legislative priorities and upcoming Scottish Parliamentary elections, this is highly unlikely to happen in the short term. The SFC have set out that as both Colleges are 'fundable bodies' and can be directly funded by the SFC, in the absence of primary legislation. The Lanarkshire Board held a special meeting on 9 November to discuss the SFC report and its recommendations, which it voted to support. South Lanarkshire College also held a Board meeting on 11 November for the same purpose and also agreed to support the recommendation made by the SFC.

We have reported on the regional governance arrangements since our appointment in 2017, recognising that while meeting the requirements of the Lanarkshire Order, they could be viewed as sub-optimal. The proposed change in the SFC report is significant and will have a considerable impact on both the governance and funding arrangements for the region. Going forward, it is imperative that any proposed amendments are carefully and robustly considered, and we will continue to support the Colleges and their respective Boards as they navigate this transition.

#### 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 Azets (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."*



## 5. WIDER SCOPE GOVERNANCE AND TRANSPARENCY (CONTINUED)

### 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.

### Covid-19 response and governance

The College finished face-to-face teaching on Tuesday 17 March. Students were notified through text, email and MyDay notifications as well as reminders on social channels. Live chat was also set up on the website on that day for any queries.

A Covid Response Group was set up within the College encompassing key decision makers within the College including members of the Executive Board, heads of faculty and professional services managers. Dedicated Covid-19 webpages were created with regularly updated FAQs, and another with student advice which was also regularly updated. A dedicated email address was also set up for responding to queries. Faculty and management kept in regular contact with students and with each other through various communication methods. There were regular updates, activities, events and advice all shared on the College Social Media platforms.

The College is working with Talking Rooms which provides mental health and wellbeing support that students can access. In addition, the College is a member of Togetherall which can also help support the health and wellbeing of staff and students with access to a 24/7 online global community. A laptop library was arranged to assist students to continue learning if they did not have access to a computer.

Board and Committees continued to meet regularly during this period using appropriate virtual platforms. Only one meeting was required to be postponed in this period, being the Board Meeting which had been scheduled for 23 March – a special on-line meeting of the Chairs' Committee was instead convened on the 15 April 2020. The Chairs' Committee has delegated authority from the Board and this meeting considered the business of the Board for that postponed meeting.

Detailed risk assessments were undertaken before the College reopened in September, and comprehensive guidance for staff and students is available on the website.



## 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 exceeded its 2019/20 SFC core funded target by delivering 171,914 SFC funding Credits (the SFC's unit of measure for learner activity). In addition the Region achieved European Social Fund (ESF) credits of 11,971, which was on target. The Region provided places for 12,259 full-time Equivalent learners. Improvements in attainment and student satisfaction are also notable.

There is close monitoring of the delivery of the Regional Outcome Agreement and 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 management of the 2019/20 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected given the circumstances of the year.

### 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 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2019/20	Final fee 2019/20
Auditor remuneration	£42,660	£42,660
Pooled costs	£2,220	£2,220
Contribution to Audit Scotland costs	£2,120	£2,120
<b>Total Fee</b>	<b>£47,000</b>	<b>£47,000</b>

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.

