

# North East Scotland College

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

**17 December 2020**



**EY**

Building a better  
working world

# Contents

Section	Auditor Responsibility	Page
<b>Executive Summary</b>	Summarise the key conclusions from our audit	<b>03</b>
<b>Financial statements audit</b>	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	<b>09</b>
<b>Wider scope dimensions</b>	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>	<b>17</b>
<b>Appendices</b>	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: adjusted errors identified during the audit Appendix E: action plan Appendix F: follow up of prior year recommendations Appendix G: Timing and deliverables of the audit	<b>28</b>

## 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 North East Scotland 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 have issued an unqualified audit opinion on the College's 2019/20 financial statements.**

---

**We updated our risk assessment in response to Covid-19, 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. At the time of writing this report, 3 audit adjustments were identified, and corrected by management. There are no unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were provided in line with the agreed audit timetable. We worked with the finance team to update and make improvements to the financial statements, in particular around Covid-19 and going concern disclosures and compliance with the Scottish Funding Council's 2019/20 Accounts Direction (see audit recommendation raised at Appendix E).

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. Work has been completed to ensure that we are 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.

<p><b>Financial Sustainability</b></p> <p>The financial environment in which the College operates was already challenging, and the Covid-19 pandemic has resulted in further, significant financial pressures.</p> <p>The College prepared a financial forecast return in June 2020 which outlines a marginal underlying operating surplus position over the three years including a forecast surplus of £0.045 million for 2020/21. This demonstrates the tight financial operating position that the College faces in an ever-changing external environment.</p>	<p><b>Governance and Transparency</b></p> <p>The key features of good governance have remained in place 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.</p> <p>The College has established a Chairs Committee which has clear terms of reference in place and has been formally approved as a permanent governance arrangement at the College.</p>
<p>AMBER</p>	<p>GREEN</p>
<p><b>Financial Management</b></p> <p>The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board and Finance &amp; Resources Committee throughout the year.</p> <p>We are satisfied that the core financial management arrangements were not materially impacted as a result of Covid-19 and the subsequent lockdown. Revised credits targets for the College have been set by the SFC, and these have been incorporated into budgets and financial plans.</p>	<p><b>Value for Money</b></p> <p>The College has a strategic plan for the period 2018-2021. The College has continued to report its performance against its strategic plan, including key measures within the financial statements.</p> <p>While the College's performance in the year has been impacted by Covid-19, the College's arrangements for considering value for money have not been altered.</p>
<p>GREEN</p>	<p>GREEN</p>



# Introduction

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.

## Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000 (“the Act”), the Auditor General for Scotland appointed EY as the external auditor of North East Scotland 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 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 and Risk Committee on in May 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 and Risk Committee in May 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 Annual Audit Plan Addendum to the College in September 2020.

As a result of our assessment we did not identify 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 team for their assistance throughout this period.

### Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £1.025 million. We have considered whether any change to our materiality was required in light of Covid-19 and we remained satisfied that the materiality values reported within our Annual Audit Plan remained appropriate. As we reported in our Annual Audit Plan Addendum we audit a number of areas of additional focus to lower materiality levels.

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.

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

Overall Materiality

**£1,025,000**

2% of the College's operating expenditure

Tolerable Error

**£768,750**

Materiality at an individual account level

Nominal amount

**£51,250**

Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply 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 and its group 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. Management documented a paper outlining the impact of 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. No material adjustments were required to be made to the financial statements in respect of the new SORP.

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.

### **Audit Outcomes**

We identified three adjusted audit differences arising from the audit which have been reflected within the financial statements, one of which related to pensions and also impacted the 2018/19 financial statements. The second difference related to the 2019/20 job evaluation uplift. The third difference related to the valuation of the asset held for sale (Balgownie Centre) for 2019/20. Our overall audit opinion is summarised on the following page.

### **Group financial statements**

The College prepared group financial statements, consolidating the results of the College and its subsidiary undertakings, Aberdeen Skills and Enterprise Training Limited and Clinterty Estates Limited (dormant company). We are currently reviewing the draft accounts to ensure that the consolidated financial statements have been prepared accordingly. We do not audit the subsidiary entities.

# 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 and its group 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 have issued an unqualified audit opinion on the 2019/20 financial statements.</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>A number of amendments have been proposed and corrected by the College.</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 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.
- ▶ 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 recognises 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.

# 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 net pension liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (North East Scotland Pension Fund) and the Scottish Teachers Superannuation Scheme (STSS). At 31 July 2020, the College's share of the pension scheme net liability totalled £31.9 million (2018/19: £24.9 million) and the present value of the unfunded obligation in relation to early retirements agreed in previous years is £6.5 million (2018/19: £6.8 million). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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 North East Scotland Pension Fund 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 yearend 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

- ▶ A prior year adjustment was identified regarding the correct classification of service costs and admin expenses to staff costs, and to recognise unfunded benefits within 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.
- ▶ Our specialists have not identified material issues with the reported asset position as outlined within the actuaries report.
- ▶ In relation to the Goodwin judgement, the actuaries included a high-level assessment within the covering report, however, they did not allow for the impact within the FRS102 report. Based on the most recent high level estimate performed by Mercers, the employer's liabilities of the College as at 31 July 2020 would increase by approximately 0.1% as a result of the Goodwin judgement, which would be around £32,000 and therefore management do not consider this to be material for the financial statements.

## 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 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. We upgraded our risk assessment of the valuation of property, plant and equipment to a significant risk as outlined in our Annual Audit Plan Addendum. To address the increased risk, we used internal specialists to examine the work performed by the College's independent valuers for the valuation of the College's full revaluation exercise in 2020.

The College has completed a full revaluation exercise of existing land and buildings during 2019/20. Management engaged their valuers to provide the full valuation exercise as at 31 July 2020. This resulted in a valuation gain of £3.654 million. The College has an asset held for sale (Balgownie Centre) which was valued by the valuers as part of the full valuation exercise at £2.4 million. One audit difference was identified and corrected by the College to bring the value of this asset in line with the external valuation.

Our approach focused on:

- ▶ Analysis of the full revaluation at 31 July 2020, including consideration of the source data used, inquiries as to the procedures used by management's specialist, assessment of the reasonableness of the assumptions and methods used in the valuation, consideration of the appropriateness of the timing of when the specialist carried out the work, and assessment of whether the substance of the specialist's findings are properly reflected in the financial statements.
- ▶ Assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation.
- ▶ Consideration of the appropriateness of disclosures made by the College in the financial statements in respect to potential valuation uncertainties at 31 July 2020.
- ▶ Consideration of the appropriateness of the accounting transactions recorded in relation to the asset held for sale, including verification of all material transactions to supporting evidence.

### Our conclusions

- ▶ One audit difference was identified in relation to the valuation of the asset held for sale (Balgownie Centre) being held on the Balance Sheet by the College. See Appendix D for further details.
- ▶ We concluded that there were no further 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.
- ▶ One recommendation raised in relation to the future considerations of the Gordon Centre, see Appendix E for further details.

## 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 challenged management on the adequacy of some of the disclosures in relation to going concern and the expected medium term impact of Covid-19, and some improved disclosures were made to the financial statements.



## Wider Scope dimensions

### **Introduction**

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

### **The Wider Scope dimensions**

#### **Financial Management:**

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

#### **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.

#### **Value for Money**

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

We outlined in our Annual Audit Plan Addendum, presented to the Audit and Risk Committee in September 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 was already challenging, and the Covid-19 pandemic has resulted in further, significant financial pressures, and creates a risk that the College will not be able to develop viable and sustainable financial plans due to external factors.

The College prepared a financial forecast return in June 2020 which outlines a marginal underlying operating surplus position over the three years. This demonstrates the tight financial operating position that the College faces in an ever-changing external environment.

## The context for financial sustainability in the FE sector

During 2020, the Scottish Funding Council released three reports considering the future of colleges and universities. Most recently in October 2020 the SFC published 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 their report, *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.

Recognising the financial challenges facing colleges in the upcoming period, the SFC has identified 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 has been awarded to support the provision of ICT equipment to help 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.

Work is underway to consider the full impact of the financial saving requirements outlined in the FFR against the College's strategic objectives.

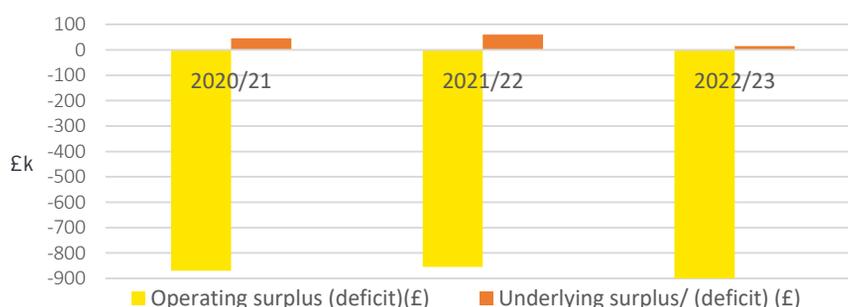
Additional funding is also expected to become available in relation to the Youth Guarantee Scheme (£10 million direct funding for colleges), the transitional training fund and use of the Coronavirus Job Retention Scheme.

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.

### 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 is based on assumptions provided by the SFC in addition to College specific assumptions for areas such as other income and staff numbers, as included within the College's Budget 2020/21 and Financial Plan 2021/22 to 2022/23. The assumptions have been subject to scrutiny by the College's Finance & Resources Committee and the Board. As Exhibit 1 demonstrates, this analysis forecasts a small underlying operating surplus for the three years of the plan.

**Exhibit 1: The College's FFR highlights that the College is forecasting an operating deficit, for the three years of the FFR period through to 2022/23. This results in an underlying surplus when non-cash elements are removed.**



Source: NESCOL Financial Forecast Return, June 2020

The College's forecasts recognise significant uncertainty in the current environment. The main risks associated with the forecast income and expenditure in the financial forecast return are:

- ▶ Underachievement of credit and academic fee income due to increased competition from universities as a result of the pandemic and lower international students.
- ▶ Reduction in credits targets for the College as confirmed by the SFC.
- ▶ Underachievement of commercial income targets due to restrictions on campus delivery and general economic uncertainty.
- ▶ Non-achievement of staff and non-staff savings.

### **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 during the going concern period based on the financial forecast return (FFR) submitted to SFC and the most up-to-date cashflow drawdown schedule submitted to SFC for the 2020/21 year. Cash flow forecasts completed by the College forecast a net cash surplus position for the full period of going concern, on the basis that the SFC will approve cash draw downs for the full period of consideration.

On this basis, management has concluded that there is no plausible scenario where the College will require financial support to meet its liabilities during the going concern assessment period.

# Financial Management

The College reported an adjusted operating surplus of £0.584 million. We are satisfied that the College's financial monitoring and reporting was clear and consistent throughout the year.

The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board and Finance & Resources Committee throughout the year. We are satisfied that the core financial management arrangements were not materially impacted as a result of Covid-19 and the subsequent lockdown.

Revised credits targets for the College have been set by the SFC, and these have been incorporated into budgets and financial plans.

G  
R  
E  
E  
N

## Financial performance and monitoring

The College reported a consolidated deficit of £2.308 million for the year (2018/19: £1.702 million). Following an actuarial loss of £4.557 million and a revaluation gain of £3.654 million, the College reported total comprehensive deficit of £3.211 million (2018/19: £13.748 million deficit). The College had an operating surplus after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £0.584 million (2018/19: £0.643 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 campus closure in March 2020, and the global oil and gas price downturn which impacts the wholly-owned trading subsidiary (Aberdeen Skills and Enterprise Trading Ltd (ASET)) who deliver specialist support to the Oil and Gas industry. This reduction in income was offset by staff savings through the furlough scheme and other savings related to delayed expenditure.

In line with previous years, the College's financial performance was monitored throughout by management and the Finance & Resources Committee. This process was not impacted by Covid-19, and there is evidence of financial monitoring, reporting and planning by the Board and Finance & Resources Committee through the financial year, including the approval of the 2020/21 budget and its submission to the SFC in June 2020.

Throughout 2019/20 management reported budget pressures through its management accounting. These were significant in the year, however we are satisfied these related to the unforeseen impact of Covid-19 on College operations on the last four months of the financial year.

## **Credits**

An initial 2019/20 credits target of 135,490 was set for the College. However, the College and SFC negotiated to reach a revised credits target of 133,490, a decrease of 2,000 credits or 1.5%, reflecting shortfalls in recent years and following slightly lower than expected full-time enrolment. The College achieved credits of 133,730 for the year, therefore, fully achieving the revised target level for 2019/20.

The SFC also announced that the College should reduce its student activity levels by 3,300 credits in 2020/21, with the expectation that the College reduces its level of distance learning. The revised target of 132,005 credits has been built into the College's budget for 2020/21.

## **Impact of Covid-19 on systems of internal control**

Within the Annual Governance Statement, the College has concluded that they have obtained assurance that the system of internal control was operating effectively during the year with no significant exceptions or issues identified. Through our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed.

We undertook an initial assessment of the financial control environment as part of our planning work in May 2020, and updated our understanding as part of the yearend audit. Our work has not identified any significant weaknesses in the College's systems of internal control. In particular, we have not identified any significant changes to the design and implementation of controls as a result of the impact of Covid-19 on working arrangements.

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

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

During the 2018/19 audit we submitted an assessment of the College's participation in the exercise to Audit Scotland, concluding that the College had actively participated in the NFI exercise and that it is well embedded within the College's Fraud Policy and Response Plan and the Financial Regulations. In line with Audit Scotland requirements we submitted an update report in February 2020. We noted progress continued to be made by the College and that we had no matters to report.

# Governance and Transparency

The key features of good governance have remained in place 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 established a Chairs Committee consisting of the Chair and Vice Chair of the Regional Board, the Principal and Chief Executive, and the Chairs of various committees. The aim of this Committee is to act on behalf of the Regional Board in any matter which, in the judgement of the Regional Board, requires urgent attention or decision. It was adopted as a permanent aspect of the College's governance arrangements by the Board in October 2020.

## Annual Governance Statement

The College has demonstrated through the year that it has the key requirements for good 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 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.

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.

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.

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.

### **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. An updated risk register, taking account of Covid-19, was presented to the September 2020 Audit and Risk Committee meeting and the October 2020 Board meeting. We are satisfied that key information continues to be disseminated to the Board and other committees on a timely basis.

In response to the Covid-19 pandemic, the College set up a Chairs Committee, consisting of the Chair and Vice Chair of the Regional Board, the Principal and Chief Executive, and the Chairs of various committees. There is a terms of reference documented for the committee, including the remit which is defined as:

- ▶ Providing support and guidance to the College's Executive Team and advice to the Regional Board;
- ▶ To act of behalf of the Regional Board in any matter which, in the judgement of the Regional Board, requires urgent attention or decision.

The Regional Board then formally approved the adoption of the Chairs Committee as a permanent aspect of the College's governance arrangements at the meeting held on 7 October 2020.

### **National Reports**

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

The most recent reports considered include Audit Scotland's '*Covid-19 Guide for audit and risk committees*' which was considered by the Audit and Risk Committee in September 2020, and the SFC's '*Financial Sustainability of Colleges and Universities in Scotland*' paper which was considered by the Finance and Resource Committee in February 2020.

## 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 enquiries 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

The internal audit plan for 2019/20 was approved by the Audit and Risk Committee in September 2019, with the annual report to be presented to the Committee in December 2020. Internal audit have concluded 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.' In addition, the annual report confirms that 'there were no issues identifying major internal control weaknesses noted from the internal audit work carried out during the year.'

## EU withdrawal

There continues to be a significant interest in public bodies' preparedness for EU withdrawal. We are aware that management has continued to consider and monitor the arrangements and risks around the UK's departure from the EU and the upcoming end of its transition period.

As reported in 2018/19, the College has created a Brexit action plan, based on a checklist created by the SFC which covers a range of potential issues related to Brexit. This action plan was updated and presented to the Board during the October 2020 meeting.

The College has assessed that key impact areas include:

- ▶ Supply chain;
- ▶ Staff members from the EU;
- ▶ Students from the EU;
- ▶ EU funding

The next External Effectiveness Review is due to be completed by the end of April 2021, and we will consider the results and implications of this review during the 2020/21 audit.

The Strategic Risk Register which was reported to the September Audit and Risk Committee and the October Board includes consideration of risks associated with Brexit, and mitigating actions the College has put in place to address these risks.

## External effectiveness review

All colleges are required to undertake an external effectiveness review (EER) at least every 3 years, in accordance with the Code of Good Governance for Scotland's Colleges. The Board's next EER requires to be completed by the end of April 2021, extended from December 2020 due to the impact of the Covid-19 pandemic. Discussions regarding the review have been held with the Governance Steering Group who have recommended that the review is undertaken as part of the Internal Audit Programme for 2020/21.

The review shall be presented at the March 2021 Board meeting for approval, and must be submitted to the SFC by the end of April 2021.

# Value for Money

The College Board considers regular updates against the Strategic Plan throughout the year, including updates on the agreed annual priorities. A number of both key strategic indicators and annual priorities have been impacted by the Covid-19 global pandemic and the subsequent closure of the College in March 2020. Annual priorities which were not able to progress have been rolled forward to AY2020-21.

The College has a dedicated area of the website for Quality and Performance Information where it publishes its performance indicators annually.

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

G  
R  
E  
E  
N

## Strategic Plan and Performance Reporting

The College's Strategic Plan 2018-21 was introduced from the start of the 2018/19 academic year. The plan identified the five strategic themes of the College. Each strategic theme has accompanying objectives and strategies to support achievement. In addition, the Strategic Plan outlines the 27 'Key Strategic Indicators' (KSIs) which the College will use over the three year period to measure success.

Performance against the 27 KSIs are reported within the financial statements, including actual performance against target, and reporting comparatives for prior years.

Due to the Covid19 outbreak in 2019/20, a number of KSI targets were not set for the current year. Performance against 9 of the 27 KSIs have been reported in the financial statements for 2019/20. Key aspects of performance that the College has reported on include:

- ▶ Performance in relation to key student credits targets;
- ▶ Full time and part time student retention levels;
- ▶ Staff costs as a percentage of turnover.

Each year, the College also agrees a number of Annual Priorities which are designed to ensure progress against outcomes and strategic indicators. Progress against the AY2019-20 Annual Priorities was presented to the Board in June 2020. This report concluded that out of the 20 priorities set for the year, 3 achieved 'green' RAG rating status, 15 were reported as 'amber' and 2 as 'red'. This report noted that the Covid-19 pandemic impacted the College's ability to fully complete a number of the priorities, and that priorities identified as either 'red' or 'amber' will therefore be carried over to AY2020-21 to ensure these are still areas of focus for the College moving forward.

The College has a dedicated area of the website for Quality and Performance Information where it publishes its performance indicators annually. The 2019/20 performance indicators have not yet been published, although this is in line with the timetable from previous years and is expected to be published in early 2021.

### **Voluntary Severance Scheme**

There were no voluntary severance payments made during 2019/20, however, the Board approved a voluntary severance scheme policy in June 2020, which will impact the 2020/21 financial year.

The scheme planned to be in operation until 31 March 2022. We will test voluntary severance payments made through this scheme as part of the 2020/21 audit, and will confirm the approval processes the College undertakes to ensure this complies with the requirements of the Financial Memorandum.

### **Procurement arrangements**

We considered the College's procurement arrangements to support the achievement of value for money, specifically whether arrangements in place had been amended as a result of challenges related to Covid-19, such as the inability to implement designed approval arrangements. We are satisfied that procurement arrangements throughout the financial year continued to be reported and scrutinised by the Finance and Resources Committee.

The College has a procurement strategy, developed for the period 2018-2021. The strategy has been designed to ensure legislative compliance with the Procurement Reform (Scotland) Act 2014 and other relevant legislation. It is aligned with both the College's and the SFC's key strategic outcomes. A copy of the strategy is available on the College website, along with the College's most up-to-date Annual Procurement Report.



## Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit and risk committee

D - Adjusted errors identified during the audit

E - Action Plan

F - Follow up of prior year recommendations

G - Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

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

### Financial Statements and related reports

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

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

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

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

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

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

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

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

### Best Value

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

# Appendix B: Independence and audit quality

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

## Matters that we are required to communicate

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

There are no relationships from 1 August 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 and Risk Committee in December 2020.

## Audit Fees

	2019/20	2018/19
<b>Component of fee:</b>		
Auditor remuneration - expected fee	£32,780	£32,030
Additional audit procedures (see below)	£TBC	£4,136
<b>Audit Scotland fixed charges:</b>		
Pooled costs	£1,870	£1,840
Contribution to Audit Scotland costs	£1,790	£1,940
<b>Total fee</b>	<b>£TBC</b>	<b>£39,946</b>

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 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; and additional audit specialist and manager work around pensions and the full revaluation of fixed assets. Discussions are ongoing with management to agree a final fee for 2019/20, including a fee variation based on additional audit procedures as outlined above.

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

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

Audit Quality Framework / Annual Audit Quality Report

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

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

The most recent audit quality report which covers our work 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><b>Terms of engagement / Our responsibilities</b></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><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan Annual Audit Plan Addendum</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan Annual Audit Report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit, 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><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit, 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 (issued on completion of audit work) or as occurring if material.</p>

Required communication	Our reporting to you
<p><b>Related parties</b></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><b>Independence</b></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><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p><b>Subsequent events</b></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><b>Material inconsistencies</b></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>
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report</p>

# Appendix D: Adjusted errors identified during the audit

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

Adjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Adjustment relating to job evaluation funding for 2019/20 uplift confirmed by SFC resulting in both income and expenditure being accrued (nil overall impact)</i>	Cr SFC Grant in Aid £53,756		Dr Accrued Income £53,756
		Dr Payroll expenditure (Admin salaries, superannuation & NI) £53,756		Cr Other Accruals £53,756
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
2	<i>Pensions adjustment relating to 2018/19 to allocate service costs and admin expenses to staff costs, and to recognise unfunded benefits within the financial statements</i>	Dr Staff costs £2,227,000		Cr Pension provision £700,000
		Cr Actuarial gain/(loss) £1,527,000		
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
3	<i>Valuation adjustment relating to 2019/20 valuation of asset held for sale (Balgownie Centre) to ensure asset being held on Balance Sheet in line with external valuation report.</i>			Cr Asset Held for Resale £1,700,000
			Dr Unrealised surplus on revaluation of Land and Buildings and Asset Held for Resale £1,700,000	

# Appendix E: Action Plan

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

## Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	<p><b>SFC Accounts Direction Disclosure Requirements</b></p> <p>As part of the audit process, we identified a number of disclosure and presentation changes requiring attention by management, including disclosures to ensure that the accounts were compliant with the SFC Accounts Direction.</p> <p>This included ensuring that all requirements of the governance statement were met, and ensuring that all Principals in post during the year were included within the staff costs disclosures note as outlined at paragraph 40 of the SFC Accounts Direction.</p>	<p>The College should ensure that financial statement preparation is completed in line with applicable guidance, including all requirements outlined within the SFC Accounts Direction.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed.</p> <p>Compliance with guidance will be reviewed for future years.</p> <p><b>Responsible officer:</b> Financial Controller, External Affairs</p> <p><b>Implementation date:</b> 31 August 2021</p>
2	<p><b>Classification of Gordon Centre</b></p> <p>As part of the audit process, the EY valuation specialist team reviewed the classification of the assets included within the revaluation exercise in 2019/20. The Gordon Centre is currently held as an operational asset, and therefore valued using the DRC methodology. However, due to the nature of the asset, it is possible that in future years it might be more appropriate for this asset to be held at a different classification (e.g. surplus). This may impact the value the asset is held at on the Balance Sheet.</p> <p>We confirmed with management that they are content for the asset to be held as operational.</p>	<p>The College should ensure that the classification of the Gordon Centre is reviewed on an annual basis moving forward to ensure that the valuation methodology applied (and therefore value being held on the Balance Sheet) is appropriate.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Management will review status of Gordon Centre annually to ascertain if DRC valuation remains appropriate</p> <p><b>Responsible officer:</b> Financial Controller, External Affairs</p> <p><b>Implementation date:</b> Annually</p>

# Appendix F: Prior Year Action Plan

This action plan summarises specific recommendations included within the 2019 Fife College Annual Audit Report. We have graded these findings according to our consideration of their priority for the College or management to action.

## Classification of recommendations

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

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

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

No.	Findings and recommendation	Management response	Management response / Implementation timeframe
1	<p><b>Fixed Assets – Additions and Disposals Process</b></p> <p>We noted through our work over fixed assets that there is an element of reliance on the budget holders to inform the finance team of any disposals that have taken place or are due to take place throughout the year.</p> <p>We noted that the process to identify additions throughout the year and at year end is not documented in a way that audit can review in a robust way.</p> <p>The College should ensure that there is a robust process for the finance team to be aware of all fixed asset additions and disposals at year end.</p> <p>This could include developing formal process (e.g. form) for all area managers to complete at year end so that the finance team is aware of all disposals processed in different locations.</p> <p>In addition, any work that the finance team completes for consideration of additions should be documented so that audit can complete a review of this process.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed.</p> <p>This was already identified by internal audit in 2018-19 and an updated procedure has been drafted.</p> <p><b>Responsible officer:</b> Head of Facilities and Estates</p> <p><b>Implementation date:</b> January 2020</p>	<p><b>Action complete.</b></p> <p>Discussions with management have confirmed that the disposals process has been updated and clearly documented.</p>

No.	Findings and recommendation	Management response	2020 audit update
2	<p><b>New SORP</b></p> <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;"><i>Grade 3</i></p>	<p>Agreed.</p> <p>An impact assessment will be undertaken in conjunction with guidance from SFC and Colleges Scotland.</p> <p><b>Responsible officer:</b> Financial Controller - External Affairs</p> <p><b>Implementation date:</b> July 2020</p>	<p><b>Action complete</b></p> <p>The College completed an assessment outlining the impact of the new SORP on the financial statements, with no significant changes identified.</p>
3	<p><b>Availability of Minutes</b></p> <p>Audit and Risk Committee agendas and minutes should be available online in line with best practice for governance and transparency, however, this is not currently in place at the College. Discussions with management noted that this gap had previously been identified but had not yet been actioned.</p> <p>The College should ensure that all Audit and Risk Committee agendas and minutes are available online in line with best practice for governance and transparency arrangements.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed.</p> <p>Agendas and minutes will be published on the website.</p> <p><b>Responsible officer:</b> Director of Strategy and Planning</p> <p><b>Implementation date:</b> December 2019</p>	<p><b>Action complete</b></p> <p>As part of audit procedures performed, confirmed that Audit &amp; Risk Committee agendas and minutes are now published on the College's website.</p>

No.	Findings and recommendation	Management response	2020 audit update
4	<p><b>Overarching VSER Policy</b></p> <p>We noted through discussions with management and through prior year audit work that the College has a governance process in place for the approval of exit packages. This includes approval of the severance scheme by the Board. A policy will be developed for a specific severance scheme identified.</p> <p>However, we noted that there is not currently an overarching voluntary severance policy in place at the College, which outlines the process any severance scheme should follow.</p> <p>The College should document an overarching severance scheme policy which outlines the governance process for the approval of exit arrangements. This should outline the process to be followed for any severance scheme considered by the College.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed.</p> <p>Director of HR and OD was aware of this and it was included as part of the Policy Review schedule with a new policy to be considered by the HR Committee in April 2020.</p> <p><b>Responsible officer:</b> Director of HR and OD</p> <p><b>Implementation date:</b> April 2020</p>	<p><b>Action complete</b></p> <p>The College has confirmed that a voluntary severance scheme has been opened, impacting the 2020/21 financial statements. As part of this, the Board considered and approved a Discretionary Voluntary Severance Scheme 2020/22 policy.</p>

# Appendix G: 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	▶ Review progress of NFI exercise	Submit NFI Questionnaire	28 February 2020
MAR			
APR	▶ Audit planning and setting scope and strategy for the 2019/20 audit	Annual Audit Plan	April/May 2020
MAY			
JUN	▶ Walkthrough Visit	Completion of internal documentation	June 2020
JUN			
SEP	▶ Year-end substantive audit fieldwork on unaudited financial statements	Audited Financial Statements	October/November 2020
SEP			
OCT	▶ Conclude on results of audit procedures	Issue Annual Audit Report	31 December 2020
OCT			
NOV			
NOV	▶ Issue opinion on the College's financial statements	Submit Audit Scotland minimum dataset request	31 December 2020
DEC			

## 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.

© 2020 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

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