



# Perth College

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

**8 March 2021**



**EY**

Building a better  
working world

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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Perth 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

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**We issued an unqualified audit opinion on the Group's 2019/20 financial statements.**

## **Financial Statements**

We have completed our audit of the consolidated and College financial statements for the year ended 31 July 2020. We identified 11 audit adjustments which have been corrected in the financial statements and three unadjusted differences. As a result of increased focus due to the significance of the impact of the pandemic, we worked with the finance team to enhance the Covid-19 and going concern disclosures within the financial statements.

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.

## **Progress against Improvement Plan**

Our audit in 2019/20 identified a series of recommendations to support improvement at the College. In addition, the College accepted a range of findings of internal audit, and a report prepared by the Head of UHI's Internal Audit Team to support weaknesses in internal control. An action plan was developed to allow the College to monitor and report on progress against 115 individual actions to support improvement. We consider the College's progress reporting on actions to date within our work on governance and transparency.

## **Going Concern**

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

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

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

## Wider Scope and Best Value

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

### Financial Sustainability

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

The College has continued to review and update its medium term financial forecasts. The College projects an underlying operating deficit position for 2020/21 of £1.7 million. In our view, it will be extremely challenging for the College to return to a breakeven position in the short or medium term as a result of the impact of the pandemic on key financial strategies. The College expects to rely upon cash advances from the SFC from July 2021 to support its cash flow position.

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### Financial Management

The College reported an operating deficit of £2 million against an initial budget of £1.1 million, with the variance due to the financial impact of Covid-19. While we noted improvement in the availability of financial monitoring reports for Board scrutiny, there is further scope for enhance the clarity and consistency of forecasting throughout the year. The College has recently appointed a new Director of Finance, who has focused on establishing a budget setting and monitoring framework for the Board and Finance and General Purposes Committee.

Core financial management arrangements were not materially impacted as a result of the lockdown.

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### Governance and Transparency

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

The College's Annual Governance Statement continues to disclose significant weaknesses in internal control, although we note significant progress against the Board's improvement plan. We note that the College continues to work with the Regional Strategic Body to actively support discussions and the development of options that may help secure the financial sustainability of FE and HE provision across the area.

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### Value for Money

The College has continued to review the effectiveness of balanced scorecard reporting during 2019/20, with further improvements progressed during 2020/21 including inclusion of 'in year' performance indicators.

The College's performance against target has deteriorated in comparison to 2018/19 with only 40% of performance measures meeting target.

Improvements have been made in relation to procurement processes, however progress has been limited due to the impact of Covid-19.

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# Introduction

## Purpose of this report

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

In accordance with the Public Finance and Accountability (Scotland) Act 2000 (“the Act”), the Auditor General for Scotland appointed EY as the external auditor of Perth College (“the College”) for the five year period 2016/17 to 2020/21. Our appointment term has been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

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

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

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

## Our independence

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

## Scope and Responsibilities

The Code sets out the responsibilities of both the College and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the audit committee 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 Spring 2020, and presented our Annual Audit Plan to the College's audit 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 updated planning report addendum to the College in September 2020.

We have not identified any new financial statement risks as a result of our assessment. 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 17.

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.

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

### Adaption to remote working

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

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

### Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a lower level of materiality, at approximately £280,000, based on 1% of the Group’s forecast expenditure for the year. In our Annual Audit Plan Addendum, presented to the Audit Committee in September 2020, we confirmed that we considered this benchmark to remain appropriate. As we reported in our Annual Audit Plan we audit a number of areas of additional focus to lower materiality levels.

Overall Materiality	Tolerable Error	Nominal amount
<b>£280,000</b>	<b>£140,000</b>	<b>£14,000</b>
1% of the Group’s operating expenditure	Materiality at an individual account level	Level that we will report to committee

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

### **Financial statement audit**

We are responsible for conducting an audit of the College's consolidated 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 consolidated 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. The financial statements had been updated for the new requirements as outlined in the SFC's 2019/20 Accounts Direction for colleges and the new FE SORP which was applicable this year.

## Group financial statements

The College prepares group financial statements, consolidating the results of the College and its subsidiary undertaking, AST (Engineering) Limited. We are satisfied that the consolidated financial statements have been prepared appropriately with inter-company transactions eliminated in line with accounting requirements. Our audit of the subsidiary financial statements is materially complete and expected to finalise in March 2021.

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 no material changes noted.

We have considered the arrangements in respect of the Perth College Development Trust (the Trust). During 2018/19, the Chair and Chief Executive became Trustees. Our updated assessment of the Trust concluded that as the College is now able to exert control over the Trust, the Trust should form part of the College group financial statements. In 2019/20 we agreed with management that the College would add a narrative disclosure to the financial statements to note that the Trust is part of the College group but that the financial position at 31 July 2020 is immaterial to the College's financial statements.

### **Audit Outcomes**

As Appendix D highlights, we have identified 11 adjusted audit differences to date and three unadjusted differences. Our overall audit opinion is summarised on the following page.

# Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
<p><b>Financial statements</b>                      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 issued an unqualified audit opinion on the 2019/20 financial statements for the College and its Group.</p>
<p><b>Going concern</b>                      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>                      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>                      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>                      Audited part of Remuneration Report has been properly prepared.                      The Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.</p>	<p>We are required to report on whether the sections of the Remuneration and Staff Report, and Accountability Report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.</p>	<p>We have no matters to report.</p>
<p><b>Matters on which we are required to report by exception</b></p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>▶ adequate accounting records have not been kept; or</li> <li>▶ the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>▶ we have not received all the information and explanations we require for our audit</li> </ul>	<p>We have no matters to report.</p>

# Significant and fraud audit risks

## **Risk of Fraud in income and expenditure recognition**

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

As outlined in our audit planning report, we rebut the risk of improper recognition of Scottish Funding Council (“SFC”) core grant funding because there is no judgement in respect of this income stream.

## **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.

## Payroll Expenditure

In September 2019, the College's internal auditors drew attention to a number of errors within payroll, including an underpayment of national insurance contributions over the course of three years that was later estimated at £108,000.

Management set aside a provision of £250,000 within the financial statements to reflect their estimate of the impact across 6 years, along with any penalties that may be incurred. The College also drew attention to the weakness within the 2018/19 Corporate Governance Statement.

The College's payroll costs amounted to £19.2 million and accounts for around 70% of expenditure. Due to the nature and volume of errors identified within payroll costs during the 2018/19 audit, we consider this to be a significant risk reflecting the current financial year audit.

## HMRC Voluntary Disclosure

- ▶ The College submitted a voluntary disclosure to the HMRC to highlight the errors identified in national insurance contributions. A payment of £120,000 was made in March 2020 in relation to the period from April 2016 to March 2019.
- ▶ A further voluntary disclosure was made to HMRC to reflect the tax year not yet completed. We challenged management's assessment used to inform the estimate to support a provision of £84,000 in the draft financial statements. We concluded that management's assessment was reasonable and calculated on a consistent basis with the prior year provision.

## Testing undertaken

- ▶ We tested a sample of employee deductions to ensure both pay and deductions were accurate. Additional testing was also performed on the calculation of the holiday pay accrual and other disclosures within the Remuneration Report.
- ▶ We reconciled the payroll system to the financial ledger to ensure the completeness of payroll expenditure.
- ▶ We noted through our analytical procedures that a data cleansing exercise has been undertaken to ensure that the HR and payroll system only contain active employees. Taking this into account, we ensured that payroll costs were consistent with headcount and known pay changes.
- ▶ We also considered the work performed by the College's internal auditors and took this into consideration to conclude on the adequacy of disclosures within the Corporate Governance Statement.

## Our conclusions

- ▶ Our detailed testing of payroll expenditure has not identified any significant issues. We noted that management had identified an overpayment of pension contributions for one individual but the impact is immaterial. In addition we noted errors in relation to furlough claims. While these were corrected in year, we consider this error to be material by nature. The College overclaimed as, in error, the pension threshold was not deducted.
- ▶ We are satisfied that the pay related disclosures within the financial statements were materially accurate with the exception of remuneration and staff report disclosures and staff related key performance indicators which had not been adjusted to reflect the data cleansing exercise performed in year. These disclosures have been amended in the final set of financial statements.

# Other Inherent Risk Areas

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

## Valuation of Pension Assets and Liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (Tayside Pension Fund (TPF)), and the Scottish Teachers Superannuation Scheme (STSS). While both are defined benefit pension schemes, the College is unable to identify its share of the underlying assets and liabilities of the STSS scheme on a consistent and reasonable basis and therefore, the scheme is accounted for as if it were a defined contribution scheme.

Accounting for the TPF 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 TPF in line with the assurance protocols laid out by Audit Scotland for IAS 19 and FRS 102, including consideration of possible valuation uncertainties driven by the impact of Covid-19. We also analyse the fund's estimated asset position at 31 July 2020 from its financial year end position at 31 March 2020 against expectations based on equity and other market movements in that time period; and
- ▶ 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.

## Our conclusions

- ▶ In calculating the scheme assets as at 31 July 2020 the actuary performs a roll forward technique using investment returns and cash flow data since the last triennial valuation. We considered the reasonableness of the reported asset position and the actuary's estimated investment returns with a material difference being identified. An updated valuation report was obtained which correctly reflected the actual investment returns.
- ▶ For the Goodwin judgement, we understand that no allowance has been made. Recent estimates show that employer's liabilities of the College may increase by approximately 0.1% as a result of the Goodwin judgement, which would be around £45,000 and therefore the actuaries, and management do not consider this to be material for the financial statements.
- ▶ Assumptions used by the actuary and adopted by the College are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

### **Inherent Risk - Valuation of Property, Plant & Equipment**

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

The College obtained a valuation from their external valuer who did not consider it necessary to include the material uncertainty clause within their valuation report. The College's PPE totals £41.2 million, an increase of £6.1 million from 2018/19. We note that College has updated its accounting policy in year and will obtain an interim valuation at year three of the five year programme.

Our approach focused on:

- ▶ analysis of the valuation of the College's estate, 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;
- ▶ use of our specialist to review and challenge the key assumptions within the valuation, including the factors impacting the movement in year; and
- ▶ consideration of the appropriateness of disclosures made by the College in the financial statements in respect to potential valuation uncertainties at 31 July 2020.

#### **Our conclusions**

- ▶ We concluded that there were no material audit differences in the approach and conclusions around management's valuation of the College's estate at 31 July 2020.
- ▶ One misstatement of £4.6 million was identified during the audit, relating to the valuer inappropriately making allowances for contingencies and finance costs in the original valuation. RICS Guidance confirms that in relation to DRC valuations in the public sector, this should be interpreted to mean that finance costs should be excluded from the valuation.
- ▶ We concluded that there were no material uncertainties in respect of the valuation of assets that were required to be disclosed in the financial statements.

## Preparation of the Financial Statements

The College has experienced significant turnover within the finance team over a period of two years and appointed a new Director of Finance in July 2020.

The prior year draft financial statements contained material errors within the primary financial statements. In addition, the financial statements did not comply with the requirements of the SFC Accounts Direction and several iterations were required.

We also recognise that the College's reliance on manual processes increases the likelihood of error. The College has planned improvements for 2019/20, including an upgrade to the current financial system.

Our approach included:

- ▶ Consideration of the impact of recommendations made in 2018/19 on the 2019/20 financial statements closure process.
- ▶ Determining that the financial statements and the financial data in the disclosures are clerically accurate.
- ▶ Agreeing and reconciling the financial statements amounts and the financial data in the disclosures to the general ledger, trial balance or lead sheets.
- ▶ Complete a "Disclosure checklist" for 2019/20 financial statements to ensure all disclosures required by the SFC Accounts Direction and Statement of Recommended Practice: accounting for further and higher education 2019 have been included.
- ▶ Read other information in documents containing financial statements to identify material inconsistencies or material misstatements of fact between the financial statements and other information.
- ▶ Ensuring appropriate inclusion of all Group components.

### Our conclusions

- ▶ The College was able to prepare and finalise financial statements in December 2020. While this was in line with agreed timescales, we note that the level of manual processes continue to cause delays and difficulties in preparing the financial statements as well as conducting audit work in a timely and efficient manner.
- ▶ The financial statements presented for audit marked a significant improvement on the drafts received in 2018/19, and as a result the focus of our discussions with management were on enhancing governance and Covid-19 related disclosures, rather than incomplete or inadequate information.
- ▶ We continue to identify a number of errors within the financial statements, particularly in relation to areas of judgement such as accruals and deferred income which are impacted by historic systems issues.



# 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. 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.

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. The College's cash flow forecast does, however, project a negative cash balance in July 2021, where support in the form of cash advances, will be required from the RSB. The SFC have provided the College with a letter of support to confirm that this will be provided.

## Our conclusions

- ▶ We are satisfied that it remains appropriate for the College financial statements to be prepared on a going concern basis.



## 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. In light of the findings within our 2018/19 annual report, we considered that it would be appropriate to continue to apply the full scope of the dimensions to the College in 2019/20. This position will be kept under review in 2020/21.

### The Wider Scope dimensions

#### Financial Sustainability:

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

#### Financial Management:

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

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

The College has continued to review and update its medium term financial forecasts. The College projects an underlying operating deficit position for 2020/21 of £1.7 million. In our view, it will be extremely challenging for the College to return to a breakeven position in the short or medium term as a result of the impact of the pandemic on key financial strategies. The College expects to rely upon cash advances from the SFC from July 2021 to support its cash flow position. This demonstrates the tight financial operating position that the College continues to face.

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## The context for financial sustainability in the FE sector

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

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

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

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

The College's plans to address a significant budget gap, including the International Strategy and progression of a voluntary severance policy, were impacted by the global pandemic.

Additional funding has also been announced to support employers to fund Modern Apprenticeship placements, and a Youth Guarantee Scheme (£10 million direct funding for colleges). Individual colleges, including the College, have also made use of the Coronavirus Job Retention Scheme. The College remains focused on ensuring that it is able to match criteria to access funding opportunities as they arise.

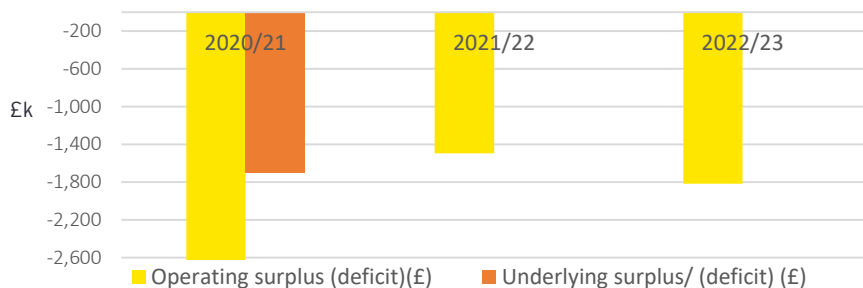
In addition to these steps, the SFC is working with the Scottish Government and other stakeholders on a possible Transformation Investment Fund to support colleges to make specific one-off investments to achieve lasting improvement in their financial health.

### Medium term financial forecasting

The College has prepared a three-year financial forecast for the period 2020 to 2023 and submitted this to the SFC in the form of the template Financial Forecast Return ('FFR') in June 2020. 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 and outlined a significant operating deficit for each of the forecast years through to 2022/23. The assumptions were subject to scrutiny by the College's senior management team, the Finance and General Purposes Committee and the Board.

Following a request from the RSB, the College updated the forecasts (Exhibit 1) to reflect potential actions that could achieve a breakeven position in the latter years of the plan. In our view, this will be extremely challenging to deliver. The Board has noted that the steps necessary to achieve financial balance are likely to have an impact on their core mission as a College.

**Exhibit 1: The College's updated FFR forecasts a significant operating deficit, for the FFR period through to 2022/23. This results in an underlying breakeven position when non-cash elements are removed**



Source: Perth College Financial Forecast Return, September 2020

The College's forecasts recognise significant uncertainty in the current environment. The key factors in the College's plan to reach breakeven include the impact of a further voluntary severance scheme, additional income and non-pay savings such as reduction in travel.

Staff costs account for around 75% of College expenditure. Current uptake of voluntary severance is lower than forecast and as a result the delivery of a breakeven medium term financial plan remains a significant challenge.

## Risks and uncertainty

The College has outlined the key risks that it considers impact the forecast income and expenditure in the financial forecast return:

- ▶ The ongoing impact of the global pandemic on its income strategies, including International income and commercial income. This means that the College has identified an over-reliance on funding from the SFC at around 80% of income. This reflects the disproportionate impact of the pandemic on the College's usual sources of commercial income.
- ▶ Underachievement of credit and academic fee income due to increased competition from universities and lower school leavers as a result of the pandemic, along with lower levels of international students.
- ▶ The risks associated with under-investment in the campus and digital estate; and
- ▶ The potential impact of Brexit on EU based funding streams.

## Going concern cash flow forecasting

We have outlined our work in respect of going concern on page 17 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 forecast its cash flow during this period, including testing a number of sensitivities which may be impacted by the current uncertainty around the 2020/21 and 2021/22 academic years as a result of Covid-19.

The College's cash flow forecast does, however, project a negative cash balance in July 2021, where support in the form of cash advances, will be required from the RSB. The SFC have provided the College with a letter of support to confirm that this will be provided. On this basis, management has concluded that it will have sufficient financial support to meet its liabilities during the going concern assessment period.

# Financial Management

The College reported an operating deficit of £2 million against an initial budget of £1.1 million, with the variance due to the financial impact of Covid-19. While we noted improvement in the availability of financial monitoring reports for Board scrutiny, we note there is further scope for enhancing the clarity and consistency of forecasting throughout the year. The College has recently appointed a new Director of Finance, who has focused on establishing a budget setting and monitoring framework for the Board and Finance and General Purposes Committee.

We are satisfied that the core financial management arrangements were not materially impacted as a result of Covid-19 and the subsequent lockdown.

## Financial performance and monitoring

The College reported a deficit of £2 million for the year (2018/19: £0.2 million). Following an actuarial loss of £5.9 million, and gain on the valuation of fixed assets of £4.5 million, the College reported total comprehensive expenditure of £3.4 million (2018/19: £1.9 million expenditure). The College had an operating deficit after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £0.6 million (2018/19: surplus of £1.27 million).

The financial performance in 2019/20 was significantly impacted by Covid-19. In particular, tuition fee and other non-SFC income reduced significantly following the College closure in March 2020. This reduction in income was partially 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 the year by the Senior Management Team and the Finance and General Purposes Committee. This process was not impacted by Covid-19, and we noted that papers were provided in advance of each meeting, which improved the ability to scrutinise financial reports. There is evidence of financial monitoring and planning by the Board and its committees throughout the financial year, including the approval of the 2020/21 budget and its submission to the SFC in June 2020.

We note that the quality of financial analysis and forecasting remained mixed during the 2019/20 financial year. There remains scope to improve the quality of financial monitoring reports by enhancing insight and commentary on the full year impact on a consistent basis. In July 2020, the College appointed a new Director of Finance. One of the key improvements undertaken to date is the development of a new format of management accounts for budget holders and the Board. Feedback has been sought on the usefulness of the format, to allow a revised format to be in place by February 2021, prior to finalisation of the 2021/22 budget. We will therefore continue to monitor the quality of financial reporting in future years.

While we were satisfied that Board members had greater oversight of financial matters throughout the reporting period, there remains scope to improve the quality of financial monitoring reports.

## **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 a number of exceptions identified through internal audit work. We are satisfied that the issues arising have been satisfactorily disclosed and that actions are in place to address the weaknesses, including resolution of errors in the calculation of pension contributions.

Throughout 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 has 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 further 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.

## **Finance Team Capacity**

During 2018/19, we reported that the College had experienced significant turnover within the finance team. This, coupled with inefficient and ineffective financial processes, had a significant impact on the capacity and capability of the finance team and on the College's ability to provide the Board with the strategic financial planning support that it needs. We are satisfied that key actions have been taken to address the weaknesses identified, including an upgrade to the finance system and the appointment of a Director of Finance in July 2020.

We do, however, continue to note areas for further improvement, including areas of inefficiency and errors within financial accounting. The College has actively participated in a review led by UHI to align financial services, which was hoped would enhance capacity and efficiency across the partner colleges.

## **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 there were significant delays in progressing the matches as a result of substantial turnover and capacity issues within the finance team. In line with Audit Scotland requirements we submitted an update report in February 2020 where we noted that all matches had been investigated by December 2019. We noted progress continued to be made by the College and that we had no further matters to report.

# Governance and Transparency

The key features of governance have remained in place at the College and have been operating effectively throughout the Covid-19 lockdown. The College responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.

The College's Annual Governance Statement continues to disclose significant weaknesses in internal control, although we note significant progress against the Board's improvement plan. We note that the College continues to work with the RSB and other UHI partners to actively support discussions and the development of options that may help secure the financial sustainability of FE and HE provision across the area.

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## Annual Governance Statement

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

This includes the requirements to conclude on the College's compliance with the 2016 Code of Good Governance for Scotland's Colleges, or to explain any areas of non-compliance. Our consideration of the governance statement has included:

- ▶ Ensuring that the College has met all requirements of the SFC's 2019/20 Accounts Direction;
- ▶ Ensuring that the content of the statement is consistent with our understanding of the College's governance arrangements and any issues identified during the year; and
- ▶ Ensuring that the College has performed a self-assessment of compliance with the Code of Good Governance for Scotland's Colleges and that this assessment is reflected in the statement.

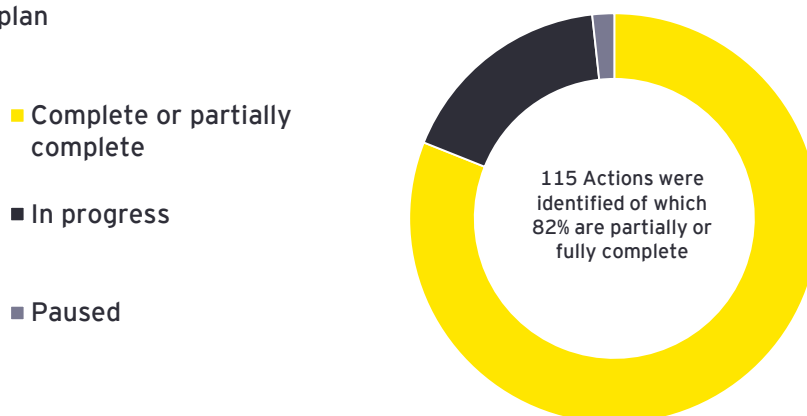
We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the Code of Good Governance for Scotland's Colleges. 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.



## Improvement Action Plan

The College responded to a number of external and internal audit reports in 2018/19 which identified a series of significant control weaknesses. As a result, the College developed a significant action plan to monitor progress both against audit recommendations and in further improvements identified by the Senior Management Team. As a result, 115 individual actions were identified. Progress against the action plan has been tracked by the College's planning and performance team and reported to the Audit Committee. As Exhibit 2 notes, as at February 2021, 82% of actions are fully or partially complete.

Exhibit 2: Good progress has been made against the Board's improvement plan



Source: Perth College Action Plan Monitoring Report, February 2021

Appendix E sets out our assessment of progress against the recommendations we made in 2018/19. We note good progress against each action and consider that this represents a significant achievement, particularly in light of the global pandemic and its impact on the sector more widely. We will continue to work with management to monitor and support the finalisation of 7 actions.

## Disclosure of Internal Control Weaknesses

The draft Annual Governance Statement reports progress made against significant control weaknesses highlighted during the 2018/19 audit. We have provided management with comments to enhance the disclosures by focusing on progress and an action plan for further improvements. These comments have been reflected within the updated financial statements.

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.

The College's Audit Committee drew upon guidance produced by Audit Scotland for governors of public sector organisations to consider and review organisational responses to organisational changes within 4 key themes:

- ▶ Internal Controls and Assurance
- ▶ Financial Management and Reporting
- ▶ Governance; and
- ▶ Risk Management

The self-assessment prepared by management allowed the Audit Committee to consider the impact of the pandemic, including additional pressure on staff and the College's cyber security response. We therefore consider this to be good practice.

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

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

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

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit and Risk Committee. For 2019/20, the internal auditor's opinion notes that, 'In our opinion, with the exception of the issues highlighted in paragraphs 1.11 to 1.15, 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. This opinion has been arrived at taking into consideration the work we have undertaken during 2019/20 and in prior years.' Paragraphs 1.11 to 1.15 highlight weaknesses in relation to payroll errors identified in 2018/19, financial control within the College's subsidiary AST, compliance with health and safety mandatory training and ongoing procurement weaknesses, including lack of use of purchase orders. These issues are disclosed within the College's Annual Governance Statement.

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

### **Regional Strategic Body: Partnership Arrangements**

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

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

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

# Value for Money

The College has continued to review the effectiveness of balanced scorecard reporting during 2019/20, with further improvements progressed during 2020/21 including inclusion of 'in year' performance indicators. The College's performance against target has deteriorated in comparison to 2018/19 with only 40% of performance measures meeting target.

Improvements have been made in relation to procurement processes however progress has been limited due to the impact of Covid 19.

## Strategic Plan 2019-21

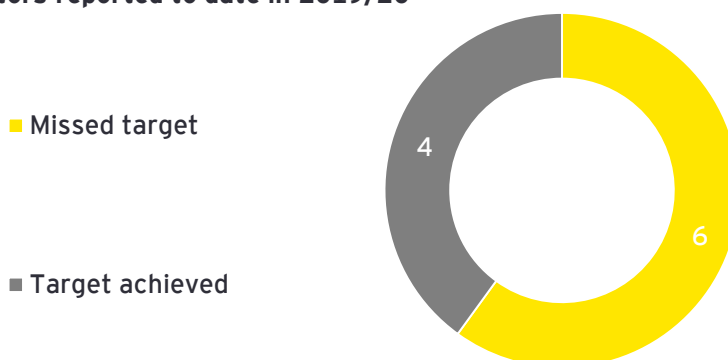
The College's Strategic Plan 2019-21 was published in June 2016. Performance has been reviewed against the four strategic objectives within a balanced scorecard covering:

- ▶ Students and staff achieving their potential;
- ▶ Sustainability;
- ▶ Student activity measures; and
- ▶ Student Satisfaction

The College continued to develop the format of the balanced scorecard throughout 2019/20, which included consultation with relevant committees. We noted that the annual balanced scorecard was reported to the Board in October 2020, a significant improvement in the timeliness of performance reporting. While data was unavailable for six performance measures, this was due to the impact of Covid 19.

Exhibit 3 highlights that the College missed the target for 60% of the measures for which data is available.

### Exhibit 3: College missed the target set for 60% of the key performance indicators reported to date in 2019/20



Source: Perth College Balanced Scorecard Interim Report, October 2020

## **KPI reporting**

In December 2020, the College presented an updated balance scorecard to the Board. Following feedback from Board and Committee, the revised scorecard reflected 'in year' key performance indicators. The indicators and considered to be areas of priority for the Board and relate to areas which can be influenced in real time:

- ▶ Financial Sustainability;
- ▶ Academic Delivery;
- ▶ Student Experience; and
- ▶ Governance and Audit

We reviewed the College's approach to public reporting and note that the College has a dedicated area of the website for Performance Indicators and External Review. We note that the College has published the results for 2018/19, with its commentary in January 2020 however no data has yet been published for 2019/20.

## **Procurement arrangements**

During 2018/19, College management identified a number of areas of potential procurement weaknesses. To allow the College to understand the issues, the Head of Supply Chain for the UHI Partnership completed an audit of the College's systems, processes and procedures and found areas of non-compliance for improvement. In addition, during our audit we identified a number of weaknesses.

The College approved both a revised procurement strategy and policy in March 2020 taking account of the weaknesses identified. Training for budget holders and other affected staff is to be rolled out with a current completion date of April 2021. We do however note that the Annual Procurement Report has not been submitted to the Board for consideration in line with strategy. In addition, the College continues to work to reduce the number of invoices without a purchase order.

The College used non-competitive procurement action during the year as a direct impact of the Covid-19 pandemic and the College's ability to appropriately tender. We noted in 2018/19 that the catering contract has significantly evolved since the last formal tendering exercise in 2004. The College had taken steps to define the critical requirements within the partnership and the full catering contract, including the aspects associated with the student experience project, and the contract was due to be subject to public tender in March 2020. While the tender process was initiated, the College decided that the process should be suspended due to the impact of Covid-19 both from a practicality perspective and ensuring that value for money was achieved through the new tender. The decision to extend the contract through a non-competitive action for a further year was subject to approval by the Finance and General purposes Committee in May 2020 on the condition that the tender process re-commenced in January 2021.



A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit and risk committee

D - Adjusted and unadjusted errors identified during the audit

E - Follow up of prior year recommendations

F - Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### 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 committee in February 2021.

## Audit Fees

	2019/20	2018/19
<b>Component of fee:</b>		
Auditor remuneration - expected fee	£18,340	£18,280
Additional audit procedures	TBD	£60,800
<b>Audit Scotland fixed charges:</b>		
Pooled costs	£1,050	£880
Contribution to Audit Scotland costs	£1,000	£930
<b>Total fee</b>	<b>£TBD</b>	<b>£80,890</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.



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 (to be 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>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>
<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>

# Appendix D: Errors identified during the audit

This Appendix sets out the adjustments processed in the financial statements finalisation.

Adjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive income	Balance Sheet Impact
1	<i>Adjustment relating to investment returns for pension assets</i>		DR Actuarial gain/loss £1,210,000	CR Pension Liability £1,210,000
2	<i>Adjustment to valuation of College campus</i>		DR Unrealised surplus on revaluation £4,600,000	CR Fixed Assets £4,600,000
3	<i>Accrual reclassification</i>			DR Prepayments £76,609 CR Accruals £76,609
4	<i>Accrued income</i>	DR Tuition Fee Income £17,525		CR Accrued Income £17,525
5	<i>Reallocation of pension costs to payroll</i>	DR Payroll Expenditure £154,512 CR Other Operating Expenditure £154,512		
6	<i>Accruals and deferred grant adjustment</i>	DR Income £52,660 CR Expenditure £55,240		DR Accruals £55,240 CR Deferred Capital grants £52,660
7	<i>Rates adjustment</i>			DR Trade Creditors £62,370 CR Prepayments £62,370

### Unadjusted differences

No.	Description	Income and Expenditure Impact	Other Comprehensive income	Balance Sheet Impact
1	<i>Adjustment relating to the Goodwin Judgment</i>	DR Past Service Cost £45,000		CR Pension Liabilities £45,000
2	<i>Job evaluation accrual adjustment</i>	DR Income £45,500 CR Expenditure £45,500		CR Accrued Income £45,500 DR Accruals £45,500
3	<i>Income raised in advance adjustment</i>			DR Deferred income £52,000 CR Debtors £52,000

### AST Adjusted differences

No.	Description	Income and Expenditure Impact	Other Comprehensive income	Balance Sheet Impact
1	<i>Rates Adjustment</i>			DR Trade Creditors £31,177 CR Prepayments £31,177
2	<i>Leonardo adjustment</i>			DR Deferred Income £77,710 CR Accrued income £77,710
3	<i>Credit Note adjustments</i>			DR Deferred income £42,417 CR Debtors £42,417
4	<i>Deferred income not received in advance</i>			DR Deferred Income £86,904 CR Debtors £86,904

# Appendix E: Follow Up of Prior Year Action Plan

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

## Classification of recommendations

**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/implementation timeframe	Our assessment
1	<p>The College was unable to produce compliant financial statements within the deadline agreed as part of the planning process, or within the SFC's 2018/19 Account Direction requirements. The draft financial statements were subject to a significant level of error and omission.</p> <p>Significant improvements are required to the financial closedown procedures and preparation of the financial statements to ensure timely and accurate completion of financial statements.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The SMT acknowledges delays with compliant financial statements due to staff changes resulting in insufficient capacity and capability within the Finance Team together with the use of manual procedures.</p> <p><b>Actions</b></p> <ol style="list-style-type: none"> <li>1. Review Structure of Finance Team including the appointment of a Financial Director on SMT: <b>Complete</b></li> <li>2. Transition existing manual financial processes to electronic, Stage 1 complete use of POs: <b>July 2020</b></li> <li>3. Improve the efficiency of year end workings to allow quicker production of primary statement and notes: <b>August 2020</b></li> <li>4. Develop a revised approach and timetable for the production of financial statements and year end processes: <b>July 2020</b></li> </ol> <p><b>Responsible officer: VP/ HoF</b> <b>Implementation date: August 2020</b></p>	<p>The ability to comply with deadlines was significantly impacted by the global pandemic. The College continued to be adversely impacted by the historic reliance on paper based systems for the production of the 2019/20 financial statements. As a result, the draft statements were not completed until December 2020. We do, however, note that the quality of the financial statements were significantly better than those received in 2018/19. As a result, while we will continue to work with management to ensure the timely production of financial statements in 2020/21, we consider this action to be complete.</p> <p><b>Our assessment: Complete</b></p>

### Key:

SMT - Senior Management Team

VP - Vice Principal

HoF - Head of Finance

HoHR&OD - Head of Human Resources and Organisational Development

HoEst - Head of Estates

No.	Findings and recommendation	Management response/implementation timeframe	Our assessment
2	<p>Audit testing identified a significant level of error, particularly within accruals testing. We would not normally expect to find the level of error where effective management review processes are in place. The finance team must ensure that quality assurance and review processes are in place throughout the year to reduce the risk of fraud or error.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>A significant level of staff turnover within the Finance team has resulted in loss of institutional knowledge and continuity and consistency of service.</p> <p>Many of these errors related to previous financial years resulting in increased delays in the completion of the 2018/19 audit and impacted the final Adjusted Operating Position.</p> <p>SMT, the College Chair and subsequently the wider Board were aware of ongoing capacity issues within the Finance Team and all had expressed frustrations at the impact this had on late papers and the availability of information on which to base decisions. This continues to be addressed by SMT.</p> <p>Permanent appointments of vacant roles were made to ensure temporary appointments and staff turnover was no longer an issue. With the resignation of the previous Head of Finance, an interim appointment has been made pending the appointment of a Financial Director. The team is now more stable and will continue to be supported and developed to ensure outstanding issues are addressed effectively.</p> <p><b>Action</b> Implement quality control and review processes across all transactions.</p> <p><b>Responsible officer: VP/HoF</b> <b>Implementation date: September 2020</b></p>	<p>The College appointed a Director of Finance in July 2020 and we understand that a review of the finance team structure is at an early stage. We do continue to note a number of errors in relation to some financial accounting judgements, such as accruals. This would indicate that training, quality review processes and the related capacity of the team should continue to be an area of focus.</p> <p><b>Our assessment: In progress</b></p>

No.	Findings and recommendation	Management response/implementation timeframe	Our assessment
3	<p>As part of the additional work we were asked to perform on deferred income, we noted that management records and communication across College departments were ineffective. There is therefore a risk that income is not reflected accurately within financial statements.</p> <p>The Finance Team should review the processes in place to record and track all sources of income.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The deferred income issue was raised with our External Auditors in March 2019 and was reported to Audit, FGPC, Chairs Committees and the Board, as well as to SFC in February 2019. Regular updates were provided as the situation developed.</p> <p>Discussions concluded with External Audit in August 2019 when it was confirmed that income could be appropriately released into 2018/19 with a non-material amount of deferred income relating to previous financial years.</p> <p><b>Actions</b></p> <p>An improved budgeting and contract management process to record and monitor performance milestones is underway.</p> <p>Improved communication between Finance and College teams to plan and monitor income and expenditure.</p> <p><b>Responsible officer: VP/ HoF</b> <b>Implementation date: June 2020</b></p>	<p>We will finalise our assessment on completion of audit testing. We do, however, note that progress has been made to develop an improved contract management process, and related training rolled out in January 2021.</p> <p><b>Our assessment: In progress</b></p>
4	<p>The revised SORP will be effective for financial periods beginning on or after 1 January 2019 and therefore will be applied by the College within their 2019/20 financial statements.</p> <p>The College should conduct an impact assessment on the implementation of the revised SORP.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Complete impact assessment on implementation of revised SORP</p> <p><b>Responsible officer: HoF</b> <b>Implementation date: July 2020</b></p>	<p>The College has considered the updated SORP and 2019/20 Accounts Direction within the draft financial statements.</p> <p><b>Our assessment: Complete</b></p>



No.	Findings and recommendation	Management response/implementation timeframe	Our assessment
5	<p>We consider that the Finance Team overall has had insufficient knowledge and experience, particularly in financial accounting, since December 2018.</p> <p>We also note that there were a number of historical issues with financial systems and approaches that College appointments within Finance were unable to address.</p> <p>The College must review the capacity and capability within the finance team to ensure that skills gaps are addressed.</p> <p>The Board needs to urgently ensure that there are appropriate arrangements established to provide strategic financial leadership.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The structure and resourcing of the Finance Team has been an ongoing focus of SMT with additional resources being invested during 2018/19 provided to increase the capacity and broaden the experience in the department. All positions are now filled permanently with the exception of the Interim Head of Finance who was appointed on a fixed term contract to May 2020, pending a revised structure.</p> <p><b>Actions</b></p> <p>Structure review of Finance: <b>Complete</b></p> <p>SMT recommendation for the appointment of a Director of Finance considered by the Remuneration Committee: <b>Complete and approved</b></p> <p>Implement a CPD plan across the Finance Team: <b>December 2020</b></p> <p><b>Responsible officer: Principal/ HoF</b> <b>Implementation date: December 2020</b></p>	<p>We would link this to the response to Action Plan Point 2.</p> <p><b>Our assessment: In progress</b></p>
6	<p>We noted that key financial reports to the Board and committees were provided late, tabled on the day or replaced by verbal updates. In our view this is unacceptable and undermines the Board's ability to monitor financial performance.</p> <p>Financial reporting must be significantly improved to support Board member scrutiny.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The Finance Team capacity issues reflected above have been an ongoing focus by SMT with the support of the Board. Actions already taken have addressed the continuity issues within the team and to enable fully compliant Board financial monitoring.</p> <p><b>Action</b></p> <p>Ensure robust financial reports are provided ahead of Committee and Board meetings: <b>February 2020</b></p> <p>In consultation with the Board, Committees and budget holders work towards an information pack to manage the business: <b>December 2020</b></p> <p><b>Responsible officer: Principal/VP</b> <b>Implementation date: December 2020</b></p>	<p>As we note on Page 22, we consider that there remains scope to improve the quality of financial monitoring reports. We understand that the Director of Finance is developing a new format of management accounts for budget holders and the Board. A revised format will be in place by February 2021, prior to finalisation of the 2021/22 budget.</p> <p><b>Our assessment: In progress</b></p>

No.	Findings and recommendation	Management response/implementation timeframe	Our assessment
7	<p>Our work has identified ongoing weaknesses in internal controls, including:</p> <ul style="list-style-type: none"> <li>▶ Reliance on paper based systems, which led to problems in relation to the retention of financial records.</li> <li>▶ Lack of segregation of duties, including inadequate review of journal entries and lack of purchase orders.</li> <li>▶ Financial systems that have not been kept up to date, including the payroll system, or are not fit for purpose, such as the fixed asset register.</li> <li>▶ Significant delay in the transition to the Government Banking Service leading to the maintenance of unnecessary bank accounts.</li> </ul> <p>The College must improve key financial controls to ensure that the weaknesses identified are addressed at pace.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The reliance on paper based systems is recognised as a key contributor to weaknesses in our internal controls. This has caused particular issues in relation to our payroll. This was identified by SMT who added this to the risk register and commissioned internal audit work to quantify the extent of the issue.</p> <p>Steps already taken include</p> <ul style="list-style-type: none"> <li>• Internal Audit Action Plan commissioned and partially actioned</li> <li>• Affected staff informed of issue and steps being taken to rectify and recompense</li> <li>• Amended the payroll system user access rights to ensure that that these are appropriate for user roles and remove all generic users from the payroll system</li> <li>• Strengthened controls around variations to staff salaries on the payroll system to reduce the opportunity for unauthorised entries to be added to the tracker and inadvertently processed</li> <li>• Introduced mechanisms to ensure that payroll checklists are always completed and held on file and that these checklists are always checked and signed off by someone independent of the payroll team prior to processing of the payroll.</li> <li>• Internal Audit commissioned to conduct evaluation of pensions and tax payments</li> <li>• Voluntary HMRC Disclosure made</li> </ul> <p><b>Future Actions</b></p> <ol style="list-style-type: none"> <li>1. Develop transition plan towards electronic systems. Work underway towards consistent use of Purchase Orders: <b>September 2020</b></li> <li>2. Introduce quality monitoring of journal entries: <b>February 2020</b></li> <li>3. Complete bank transition: <b>March 2020</b></li> <li>4. Investment in a managed service for Ciph: <b>Underway</b></li> <li>5. Implement Fixed Asset Register: <b>July 2020</b></li> </ol> <p><b>Responsible Officers: VP, HoF, HoHR&amp;OD, HoEst</b></p> <p><b>Implementation date: September 2020</b></p>	<p>While good progress was made to update key finance systems, including the ledger and HR system we note that the transition to the Government Banking Service is not yet complete.</p> <p><b>Our assessment: <span style="color: orange;">In progress</span></b></p>

No.	Findings and recommendation	Management response/implementation timeframe	Our assessment
8	<p>The College did not participate with the NFI exercise until December 2019. We also note that the Fraud Response Plan does not refer to the exercise, or the need to resource or investigate the follow up of matches. The College should ensure that the Fraud Response Plan is updated to reflect the investigation of matches identified through the NFI exercise.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The previous Head of Finance had engaged with NFI but had not fully completed the testing of the matches within the specified deadlines.</p> <p>Once SMT became aware of this in December 2019, action was taken immediately to register key staff and to investigate the matches.</p> <p><b>Action</b> Update Fraud Response Plan to reflect the investigation of matches identified through NFI: <b>June 2020</b></p> <p>Self assessment form agreed and launched: <b>May 2020</b></p> <p><b>Responsible officer: HoF Implementation date: June 2020</b></p>	<p>As we note at page 23, we reported on progress to Audit Scotland in February 2020 and therefore consider this action to be complete.</p> <p><b>Our assessment:</b> <b>Complete</b></p>
9	<p>The Board was given insufficient time and strategic financial support to allow effective scrutiny of the key assumptions underpinning the Financial Forecast Return. The Financial Forecast Return should be presented in sufficient time to ensure that the Board has an opportunity to influence key assumptions prior to submission.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The capacity within the Finance Team together with sources of income channelled through UHI not being fully confirmed resulted in delays in finalising the College budget for 2019/20.</p> <p>SMT worked hard to ensure the robustness of the budget and the savings required to be achieved during the year. The budget was ultimately approved at the October Board. This had a knock on effect to the development of the FFR.</p> <p>SMT and the Board expressed dissatisfaction that there was insufficient time to fully scrutinise the assumptions underpinning the FFR. As a result this is being reviewed to determine any revisions to be made.</p> <p><b>Actions</b> Revise FFR for 2019/20 to ensure accuracy Implement scenario planning exercise with College Board to inform 2020/21 FFR: <b>May - September 2020</b></p> <p>Increase engagement with UHI Finance to achieve early confirmation of income sources to inform 2020/21 budget: <b>May 2020</b></p> <p><b>Responsible officer: HoF</b> <b>Implementation date: September 2020</b></p>	<p>As we note at page 22, the Board received the FFR in advance of submission and have been able to review key assumptions, along with the updated position.</p> <p><b>Our assessment:</b> <b>Complete</b></p>

No.	Findings and recommendation	Management response/implementation timeframe	Our assessment
10	<p>Staff costs within the Financial Forecast Return have been reduced to reflect the savings required to return a balanced position, rather than as a result of an effective workforce plan. In our view, the Financial Forecast Return does not provide a robust medium term financial plan. The College urgently needs to develop effective medium term financial planning. This should be supported by scenario planning and ongoing monitoring.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Rationale included within Finding 9.</p> <p><b>Actions</b></p> <p>Develop alternative scenarios, modelling and fiscal/ budget assumptions to more accurately forecast and monitor future financial impacts</p> <p>Undertake CMT and Board Development sessions on the creation of the FFR for 2021-26</p> <p><b>Responsible officer: HoF</b></p> <p><b>Implementation date: May - September 2020</b></p>	<p>The Board has considered the FFR, along with options to deliver a balanced adjusted operating position in the medium term. We do consider that there is scope to improve the level of scenario planning presented to the Board, but recognise that this has not been possible due to the impact of the pandemic.</p> <p><b>Our assessment: In progress</b></p>
11	<p>We noted a number of instances where reporting to the Board was ineffective and may not support Board members' specific responsibilities as charitable trustees. Examples include:</p> <ul style="list-style-type: none"> <li>▶ Key decisions on senior staffing structure</li> <li>▶ The Board did not consider the 2018/19 budget, but noted the minutes of the F&amp;GP committee.</li> <li>▶ The 2019/20 Budget was approved in October 2019, following the start of the financial year.</li> </ul> <p>The Board does not receive the risk register or financial monitoring updates.</p> <p>We understand that the College will receive an external evaluation of its governance arrangements by December 2020. This review should consider the quality of reporting, and be informed by the specific responsibilities of charitable trustees.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>See Responses in 2, 5, 6 and 9</p> <p>The College risk register process has already been reviewed and updated with risks monitored at all committee and board meetings. This is managed by the Clerk to the Board with each SMT member owning specific risks and the relevant committees monitoring the progress against these risks. The full register has now been included within all Board meetings.</p> <p><b>Actions</b></p> <p>Review the College's Annual Governance plan to ensure approvals are obtained based on robust and timely information</p> <p>Board agendas to include Financial monitoring updates</p> <p>Review the process for reporting and approval of settlement agreements</p> <p><b>Responsible officer: Principal/ Board Clerk</b> <b>Implementation date: March - July 2020</b></p>	<p>The external evaluation of Board effectiveness was delayed as a result of the pandemic but has been completed,</p> <p><b>Our assessment: Complete</b></p>

No.	Findings and recommendation	Management response/implementation timeframe	Our assessment
12	<p>The College has not undertaken a review of the Governance Statement against the good practice guidance referred to within the Accounts Direction.</p> <p>The College should review the quality of the Governance Statement against good practice guidance to ensure that it meets users needs.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The College has already created a document reflecting the evidence of its compliance against the Governance Statement. This will be further reviewed to ensure this data is fully and fairly reflected within the Governance Statement.</p> <p><b>Action</b></p> <p>Review and implement the good practice guidance to ensure the quality of the Governance Statement</p> <p><b>Responsible officer: VP/ Board Clerk</b></p> <p><b>Implementation date: March- July 2020</b></p>	<p>We noted that the first draft of the Governance Statement includes a transparent assessment of key weaknesses identified during the year. While we continue to work with management to improve the presentation and disclosures, we consider this action to be complete.</p> <p><b>Our assessment:</b> <b>Complete</b></p>
13	<p>The Balanced Scorecard is under development but the most recent report to December 2019 provided only an interim report on 2018/19 performance. We also noted that a number of indicators were RAG rated only, but the actual metrics were not reported. This may be insufficient for effective scrutiny.</p> <p>Performance reporting should be reviewed to ensure that it is timely and provides sufficient information to allow robust scrutiny.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The College has undertaken a significant amount of work in reviewing the Balanced Scorecard. This has been consulted on across the College and at all Committees and at the Board.</p> <p>The revised Balanced Scorecard format is reported at all committee and board meetings.</p> <p>The timings of the completion of the full balanced scorecard has been delayed this year due to the delay in the production of the Financial Statements. The final 2 measures of AOP and % of non SFC turnover were unable to be included until the Financial Statements were completed.</p> <p>The College is always receptive to recommendations for improvements and will further review the current format to ensure that it provides the best possible monitoring information.</p> <p><b>Actions</b></p> <p>Implement further improvements to the Balanced Scorecard to include actual metrics and reporting timelines.</p> <p><b>Responsible officer: Principal/ Board Clerk</b></p> <p><b>Implementation date: March - July 2020</b></p>	<p>As we note at page 29, the College presented an updated balance scorecard to the Board in December 2020. Following feedback from Board and committee, the revised scorecard reflected 'in year' key performance indicators.</p> <p><b>Our assessment:</b> <b>Complete</b></p>

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
14	<p>The College has disclosed a number of significant weaknesses in procurement within its Governance Statement, including lack of competitive tenders for material contracts.</p> <p>The College must ensure that procurement weaknesses are addressed as a matter of urgency.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>SMT identified a weakness in this area and as a result took a number of corrective actions to ensure that appropriate systems and processes were addressed and that policies and procedures were up to date and communicated effectively to staff.</p> <p>SMT acknowledges the 2 areas of non compliance which were already in process of being addressed prior to the external audit being undertaken. These were a contract which is broader than a tendered service relationship and which had been in place since 2004 and which is subject to a current retender process. Secondly, a contract that required reporting to RSB which was undertaken retrospectively was non-compliant. This contract was funded through non-public funded sources</p> <p>SMT have already implemented a control system which includes:</p> <ul style="list-style-type: none"> <li>▶ APUC contract in place</li> <li>▶ Revision of Procurement Strategy and Procedures</li> <li>▶ Contracts register enabling forward planning of contract values, tenders and renewals</li> <li>▶ Greater use of APUC Frameworks</li> <li>▶ Implementing a consistent purchase order system</li> <li>▶ Retendering of non-compliant contracts</li> <li>▶ Discussions with RSB on rationales for exemptions to tender</li> </ul> <p><b>Responsible officer: VP</b> <b>Implementation date: March - July 2020</b></p>	<p>We noted a number of improvements, but full completion is not possible until the arrangements to relet tenders is possible post-pandemic.</p> <p><b>Our assessment: In progress</b></p>

# Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle.

	Audit Activity	Deliverable	Timing
FEB	▶ 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
SEP			
OCT			
NOV	▶ Year-end substantive audit fieldwork on unaudited financial statements	Audited Financial Statements	December 2020 - January 2021
DEC	▶ Issue opinion on the College's financial statements	Submit Audit Scotland minimum dataset request	January 2021
JAN			
FEB	▶ Conclude on results of audit procedures	Issue Annual Audit Report	8 March 2021

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