



Moray College

**Annual Audit Report to the
members of the Board of
Management and the Auditor
General for Scotland 2020/21**

28 February 2022



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 Moray College (the College) for financial years 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 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

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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 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 2020/21 audit

We issued an unqualified audit opinion on the College's 2020/21 financial statements.

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. Our materiality levels were amended to reflect the decrease in expenditure in 2020/21

Financial Statements

We have materially completed our audit of the College's financial statements for the year ended 31 July 2021. We identified two adjusted audit differences arising from the audit, which have been reflected within the financial statements. The draft financial statements and supporting working papers were provided in line with the agreed audit timetable and were of a good standard. We worked with the finance team to update the financial statement disclosures, including in relation to disclosures relating to the College's going concern position and reflecting areas of focus within the governance statement.

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 level of compliance with the Code of Good Governance for Scotland's Colleges, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

Going Concern

Management is required to conclude on the going concern basis of preparation in the financial statements. As a result of the unprecedented financial and operational pressures faced by the College to respond to the impact of 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. The College's medium term financial planning identifies a challenging financial position in 2022/23 and 2023/24. We are satisfied the College remains a going concern and has made appropriate required disclosures in the financial statements. We have considered the related risks to the financial sustainability of the College and its longer term delivery of strategic objectives in our wider scope reporting.

Wider Scope Audit Dimensions

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

RED	<p>Financial Sustainability</p> <p>The College has continued to review and update its medium term financial forecasts to reflect the challenging environment caused by the pandemic. The College's forecasts reflect significant financial pressures caused by lower FE student numbers, and the expected clawback of related funding in 2021/22. While additional funding was awarded during 2020/21 to help ease immediate pressures, the future outlook remains unclear, and as a result, the College was unable to set a balanced budget for 2021/22.</p> <p>The College submitted a financial forecast return in October 2021 to the Scottish Funding Council which outlines underlying operating deficits position over the next three years, including a forecast deficit of £0.735 million for 2021/22. Financial pressures of this scale mean that the College may rely on cash advances from the Regional Strategic Body / Scottish Funding Council to support its financial position.</p>
GREEN	<p>Financial Management</p> <p>The College reported a small operating deficit of £15,000, representing an improvement on the £0.25 million deficit reported in 2019/20. We were satisfied that the College's financial monitoring and reporting was clear and consistent throughout the year.</p> <p>The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board and Finance and General Purposes Committee throughout the year. We are satisfied that the core financial management arrangements were not materially impacted as a result of Covid-19 and the subsequent lockdowns, with clear financial reporting continuing throughout the year.</p>
GREEN	<p>Governance and Transparency</p> <p>The key features of good governance remained in place at the College and have been operating throughout the Covid-19 lockdowns. The College responded quickly to ensure that governance arrangements were appropriate and operating effectively in light of the impact of Covid-19.</p> <p>The results of the externally facilitated Board Effectiveness Review provided substantial assurance in relation to the processes in place. A number of opportunities to make improvement, including induction and training arrangements for student representatives on the Board of Management. The College has used its Governance Statement to disclose the actions planned to respond to the action plan, including improvements secured to date.</p>



Introduction

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

Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000 (“the Act”), the Auditor General for Scotland appointed EY as the external auditor of Moray 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 of Governors 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. Further information is available in Appendix B.

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 College Audit Committee in May 2021.

The impact of the Covid-19 pandemic

In 2019/20 we were required to supplement our Annual Audit Plan with an addendum outlining the main anticipated areas of impact on the audit following our reassessment of all audit planning and risk assessments. As Covid-19 was a known factor in planning the audit in 2020/21, the same approach has not been required. We have, however, added to our planning and execution procedures throughout the audit to take into account various factors related to Covid-19, and have continued to reassess the risks facing the College in this light:

- ▶ 2020/21 was the first full year where there were material transactional impacts in the College's financial statements, in particular through the recognition of additional Covid-19 related costs and subsequent Scottish Funding Council funding support.
- ▶ While some of the uncertainty around the impact of Covid-19 on key balance sheet valuations had reduced from 31 July 2020 to the current yearend, this also remained a key area of audit focus.
- ▶ We continued to work with management to ensure the financial statements adequately reflected the impact of Covid-19, in particular through the performance and accountability reports, governance statement, and accounting estimates and judgements disclosures.

The 2020/21 audit was conducted fully remotely. Information was shared between the College and the audit team through our secure portal, and enquiries and investigation took place through Microsoft teams meetings. In order to mitigate the risk of not being able to view key documents and information on systems in person, additional supplementary procedures were completed to verify the information provided by management.

Both the audit team and College finance team worked in conjunction to ensure the additional impact of these working arrangements were minimised as far as possible. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

The ongoing disruption to the delivery of further education as a result of Covid-19 continues to have a significant impact on the financial statements and subsequent audit.

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

We updated our assessment of materiality based on the 2020/21 financial performance of the College. Planning materiality was reduced from £304,000 to £285,000.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £304,000. We considered whether any change to our materiality was required in light of Covid-19 and the College's 2020/21 financial performance. Based on our assessment, materiality was reduced, as outlined below.

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.

Overall Materiality

£285,000

2% of the College's operating expenditure

Tolerable Error

£214,000

Materiality at an individual account level

Nominal amount

£14,000

Level that we will report to committee

Financial statement audit

We are responsible for conducting an audit of the College's financial statements. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; relevant Auditing Standards and applicable Practice Notes issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

We are responsible for conducting an audit of the financial statements of the College and provide an opinion on the financial statements as to:

- ▶ whether they give a true and fair view of the state of affairs of the College as at 31 July 2021 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 two dimensions of wider scope public audit set out in the Code which comprise the wider scope audit for small public sector bodies in Scotland. These are financial sustainability and governance and transparency. We outlined in our Annual Audit Plan that, given the impact of Covid-19 and associated risks around robust financial management, we would consider this dimension as part of our work in 2020/21.

Our findings are summarised in Section 3 of this report.

Outstanding audit matters

While our audit work is materially complete, we note the following areas of outstanding work at the time of drafting this report which require satisfactory completion before we can finalise our work and issue our audit opinion on the College's financial statements:

- ▶ Completion of subsequent events enquiries and audit work through to the date of approval of the financial statements.
- ▶ Receipt of the signed letter of representation and signed financial statements.



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 a complete draft financial statements in January 2022 which was slightly later than the agreed timetable. The financial statements and supporting working papers remained of a good quality.

Audit Outcomes

We identified two adjusted audit differences arising from the audit which have been reflected within the updated financial statements. The difference related to agreement on the appropriate accrual for the costs and funding associated with the national job evaluation exercise for lecturers and support staff.

Our overall audit opinion is summarised on the following page.

Management provided draft financial statements on 12 January 2022. The responses to audit queries provided by the finance team remained cooperative and timely.

Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
<p>Financial statements</p> <p>The financial statements provide a true and fair view of the state of affairs of the College at 31 July 2021 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 2020/21 financial statements for the College.</p>
<p>Going concern</p> <p>We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting</p>	<p>We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis.</p> <p>Wider scope procedures, including financial forecasts are considered as part of our work on financial sustainability.</p>	<p>Our audit opinion is unqualified in this respect.</p>
<p>Other information</p> <p>We consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit</p>	<p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> ▶ Review of committee minutes and papers, regular discussions with management, our understanding of the College and the sector. 	<p>We are satisfied that the annual report materially meets the core requirements set out in the Accounts Direction.</p>
<p>Report on regularity of income and expenditure</p> <p>We are required to consider whether in all material respects the income and expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers</p>	<p>Our procedures include:</p> <ul style="list-style-type: none"> ▶ Understanding the applicable enactments and guidance issued by the Scottish Ministers ▶ Performed detailed testing of income and expenditure testing to ensure transactions are in line with enactments and guidance 	<p>We are satisfied that in all material respects income and expenditure are regular.</p>
<p>Matters prescribed by the Auditor General for Scotland</p> <p>Audited part of Remuneration Report has been properly prepared.</p> <p>The Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.</p>	<p>We are required to report on whether the sections of the Remuneration and Staff Report, and Accountability Report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.</p>	<p>We have no matters to report.</p>
<p>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> ▶ adequate accounting records have not been kept; or ▶ the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or ▶ we have not received all the information and explanations we require for our audit 	<p>We have no matters to report.</p>

Significant and fraud audit risks

Risk of Fraud in income and expenditure recognition

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

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

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 test all relevant income and expenditure policies against the relevant accounting standards and SORP;
- ▶ Review, test and challenge management around any accounting estimates on income and expenditure recognition for evidence of bias;
- ▶ Develop a testing strategy to test all material income and expenditure streams;
- ▶ Test all material grant income with performance conditions to ensure income is recognised correctly in line with the outlined requirements;
- ▶ Review and perform focused testing on income and expenditure around the year end to ensure correct recognition around cut-off between financial periods;
- ▶ Perform testing for any evidence of clawback of income where conditions for entitlement have not been met;
- ▶ Review and develop a testing strategy for Covid-19 related income streams, including furlough income and additional Covid-19 related grant income; and
- ▶ Assess and challenge manual adjustments or journal entries by management around the year end for evidence of management bias and evaluation of business rationale and evidence.

Our conclusions

- ▶ We identified one adjustment in relation to the accrual of job evaluation funding and expenditure in Appendix D. Our testing did not identify any further misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
- ▶ We assessed the treatment of Covid-19 related income streams, including furlough income and additional Covid-19 related grant income. We concur with management’s accounting treatment for the new revenue streams.

Risk of management override

Our Annual Audit Plan recognises that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

Risk of Fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Testing on Journal Entries

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- ▶ Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- ▶ Journals entries made around year end; and
- ▶ Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

Our conclusions

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

Judgements and Estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and is applicable to the 2020/21 audit for the first time. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- ▶ a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes (outlined on page 14 of this report); and
- ▶ areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 15 of this report).

Our procedures included:

- ▶ Testing management's process method, key assumptions, data;
- ▶ Testing management's process-estimation uncertainty;
- ▶ Considering evidence from events up to the report date; and
- ▶ Developing our own point estimate of the appropriate valuation.

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

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements.

Accounting Policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the College to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under the Further and Higher Education SORP 2019.

Our conclusions

- ▶ We did not identify any areas of significant estimation or judgement as part of our audit work where we disagreed with management over the accounting treatment.
- ▶ There were no significant accounting practices which materially depart from what is acceptable under the College's financial reporting framework.

Other Inherent Risk Areas

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

Valuation of net pension liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (North East Scotland Pension Fund) and the Scottish Teachers Superannuation Scheme (STSS). At 31 July 2021, the College's share of the pension scheme net liability totalled £33.51 million (2019/20: £29.5 million) and the present value of the unfunded obligation in relation to early retirements agreed in previous years was £0.15 million (2019/20: £0.2 million). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach included:

- ▶ obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of actuarial assumptions underpinning such reports in conjunction with our internal specialists;
- ▶ performing substantive testing on the verification of the pension assets. Specifically, we engage with the auditor of North East Scotland Pension Fund in line with the assurance protocols laid out by Audit Scotland for IAS 19 and FRS 102. We also analysed the fund's estimated asset position at 31 July 2021 from both its financial year end position at 31 March 2021 and the prior year end for the College of 31 July 2020 against expectations based on equity and other market movements in that time period;
- ▶ developing our own point estimate for the College's liabilities in the Fund and comparing to the actuary's assessment;
- ▶ assessing the work of the actuaries in considering the impact of legal rulings impacting the liabilities in the fund; and
- ▶ reviewing the calculation of the College's valuation of future early retirement liabilities at 31 July 2021, including the integrity of the underlying pensioner data used by the actuary and College.

Our conclusions

- ▶ In calculating the scheme assets as at 31 July 2021 the actuary performs a roll forward technique using investment returns and cash flow data since the last triennial valuation. We have considered the reasonableness of the reported asset position and note that the actuary's estimated investment returns were consistent with our own expectations.
- ▶ We have assessed the reasonableness of the calculation of the College's share of the Fund's liabilities and concluded these are consistent with our expectations.
- ▶ 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

The College's property portfolio totals £24.9 million as at 31 July 2021 (2019/20: £25.6 million), with the major elements of this being in respect of land and buildings. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years. The College is required to consider annually that the valuation of the College estate remains appropriate outside of formal revaluation cycles.

Management engaged external valuers to conduct a full valuation of the land and buildings estate as at 31 July 2019. The impact of Covid-19 on the use of assets and future plans means that we have placed significant scrutiny on management's assessment of impairment.

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.

Our approach focused on:

- ▶ analysis of the College's estate, including consideration of the impact of Covid-19, any material changes from the prior year in its condition or planned future use, and assessment of the ongoing reasonableness of the assumptions and methods used in the valuation; and
- ▶ assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation.

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 2021.
- ▶ We recognise the short term impact that Covid-19 has had on the utilisation of the College estate, however given the long term useful lives of the assets and the plans to return to normal teaching arrangements in future we consider the carrying value to remain appropriate. This is something which should be kept under consideration by management should teaching arrangements change on a more permanent basis in the future.

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 as in prior years, but we continue to place 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 2020/21 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 the period to 12 months following the conclusion of the audit. The cashflow forecast is based on the financial forecast return submitted to the Scottish Funding Council in October 2021 and updated for any information which has become available since submission.

After completing its going concern assessment in line with the information and support provided through the earlier discussions in the audit process, the College has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the College's future financial position 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 2020/21 Accounts Direction.

Our conclusions

- ▶ We are satisfied that it remains appropriate for the College financial statements to be prepared on a going concern basis.
- ▶ Due to the challenging financial outlook, confirmation from the SFC was obtained to provide assurance that the SFC would support cashflow management at the College if this is required.



Wider Scope dimensions

Introduction

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

The Wider Scope dimensions

Financial Management:

- ▶ Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively. This dimension of wider scope work is not usually applicable to smaller bodies, however due to the increased risk around financial management at the College in the circumstances this year we have made the judgement to consider as part of our audit process.

Financial Sustainability:

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

Governance and Transparency:

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

We outlined in our Annual Audit Plan, presented to the Audit Committee in June 2021, 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 College has continued to review and update its medium term financial forecasts to reflect the challenging environment caused by the pandemic. The College's forecasts reflect significant financial pressures caused by lower FE student numbers, and the expected clawback of related funding in 2021/22. While additional funding was awarded during 2020/21 to help ease immediate pressures, the future outlook remains unclear, and as a result, the College was unable to set a balanced budget for 2021/22.

The College submitted a financial forecast return in October 2021 to the Scottish Funding Council which outlines underlying operating deficits position over the next three years, including a forecast deficit of £0.735 million for 2021/22. Financial pressures of this scale mean that the College may rely on cash advances from the Regional Strategic Body / Scottish Funding Council to support its financial position.

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Financial sustainability in the College sector

In June 2020, Scottish Ministers asked the Scottish Funding Council (SFC) to review how they could best fulfil their mission of securing coherent, good quality, sustainable tertiary education and research in these changing times. This review has been conducted over three phases with the final phase published in June 2021.

In October 2021, the Scottish Government published their response to the review's recommendations, with the recommendations being broadly accepted. The Scottish Government recognises that some recommendations will require further development for consultation. In some instances, the pace, scale and timing of implementation will be determined by wider spending and resource considerations. Of particular note in respect of financial sustainability is that the Cabinet Secretary for Finance and the Economy has confirmed her plans to publish a multi-year resource spending review framework for public consultation alongside Budget 2022-23 and the Medium Term Financial Strategy.

As part of the phase 3 publication, the SFC published their updated review of '*Coherence and Sustainability: Financial Sustainability of Colleges and Universities*'. The report presented an aggregate review of the financial health of Scottish institutions based on 2019-20 published financial statements and the latest forecasts for 2020-21.

Improvement in the sector's underlying operating position was achieved in 2019-20 with a small surplus achieved which was significantly improved from the original deficit forecast. A similar position is currently forecast for 2020-21 with the impact of Covid-19 not considered to be as severe as anticipated. Non-recurring funding was made available which has helped stabilise the sector's finances, however challenges remain in future years.

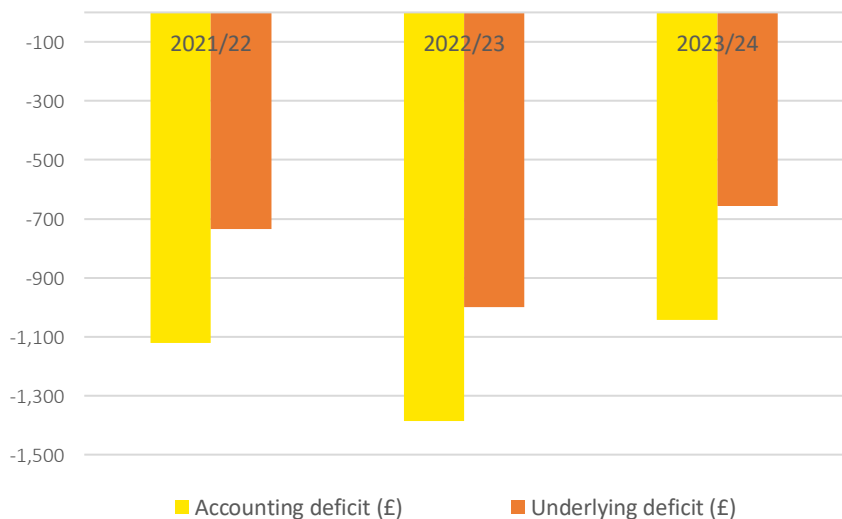
The SFC has recognised a number of key risk areas that could adversely impact colleges' financial performance and sustainability including:

- ▶ Maintaining short-term liquidity;
- ▶ Continued impact of the Covid-19 pandemic and the potential consequential failure to achieve income targets;
- ▶ Impact of cost efficiencies on both quality of student experience and on the health and wellbeing of college staff;
- ▶ Future arrangements for funding Foundation Apprenticeships;
- ▶ Additional staff costs arising from both cost of living pay awards, the outcome of the national bargaining job evaluation exercise for support staff and increases employer pension contributions; and
- ▶ Challenges of diversifying income and generating additional surplus.

Medium term financial forecasting

The College has prepared a three-year financial forecast for the period 2021 to 2024 and submitted their plans to the SFC in the form of the template Financial Forecast Return ('FFR') in October 2021. 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. The assumptions have been considered by the Finance and General Purposes Committee and were subject to scrutiny by and approved by the College's Board of Management. As Exhibit 1 demonstrates, this analysis forecasts an underlying operating deficit for the three years of the plan.

Exhibit 1: The College's FFR highlights that the College is forecasting an underlying deficit to 2022/23. An accounting deficit is also forecast for the same period.



Source: Moray College Financial Forecast Return, October 2021

The College's forecasts recognise significant uncertainty in the current environment. The College acknowledges that the scale of savings required creates significant risks including a requirement to further reduce staff. The majority of the College's costs relate to staffing and, following a period to reduce non-pay costs under a Financial Recovery Plan, this area remains the key mechanism available to the Board to deliver financial balance. The Board recognises that further staff reductions would have a significant impact on the curriculum the College is able to offer, and therefore impact credit targets in future years.

Strategic planning

Recommendation 1: The Board must work with the University of the Highlands and Islands Regional Strategic Body to develop a sustainable financial plan for future years.

In October 2021, the Board agreed the five key strategic "pillars" that will underpin the College's Strategic Aims and Objectives within the updated Strategic Plan. The key pillars include enterprise and sustainability, both encompassing the College's approach to deliver financial sustainability. The plan will be aligned with the UHI Strategic Framework, as Regional Strategic Body.

The College is a key partner for the development of the Moray Aerospace, Advanced Technology and Innovation Campus (MAATIC) under the Moray Growth Deal. This aims to provide training, innovation and research development supporting aerospace and other manufacturing enterprises, and development of advanced engineering skills in the region's workforce with specialisms in aviation, aerospace, and digital manufacturing. The College's strategies and future curriculum must therefore be aligned to the opportunities presented by the significant investment.

A related risk is the level of backlog maintenance which impacts the quality of the current College estate. An Estates Strategy is being developed to support the Strategic Plan, along with the delivery of the significant capital project to build the MAATIC campus. We understand that the development of the Estate Strategy will be an area of focus for the College's internal auditors in 2021/22. The College has highlighted that the likely requirement to secure climate change targets in the longer term will be very challenging.

Similarly, the College is a key participant in the delivery of the Business Enterprise Hub, which will promote economic development in the region by supporting over 450 small businesses across all sectors, including start-ups.

Going concern cash flow forecasting

We have outlined our work in respect of going concern on page 16 of this report. While the College has prepared its financial statements on a going concern basis as required by the FReM for a public body, it is required to consider its ability to meet liabilities as they fall due over the going concern assessment period to 31 July 2023, being the next year end date which is greater than 12 months from the approval date for the financial statements.

As part of its financial forecasting arrangements the College has forecast its cash flow during this period, including testing a number of sensitivities which may be impacted by the current uncertainty around the 2021/22 and 2022/23 academic years as a result of Covid-19.

As part of the FFR submission, the College has projected cashflows to 31 July 2023 with a closing balance of (£0.625) million. Following the preparation of the FFR, management has prepared a detailed cashflow forecast to inform their going concern assessment, using the latest available information, which shows a marginally improved position with a forecast cash balance of (£0.57) million. This demonstrates the volatility and uncertainties surrounding the College's current financial position. . While a revised credit outturn notes an improvement in the up to date student position, the level is insufficient to reverse the deficit.

As noted above, the College has made use of the key mitigating actions available to date, including a voluntary severance scheme and reviewing other opportunities to achieve savings. The College is continuing to engage with UHI and the SFC regarding their financial outlook and seek financial support as required.

Financial Management

The College reported an operating deficit of £15,000, representing an improvement on the £0.25 million deficit reported in 2019/20. We were satisfied that the College's financial monitoring and reporting was clear and consistent throughout the year.

The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board and Finance and General Purposes Committee throughout the year. We are satisfied that the core financial management arrangements were not materially impacted as a result of Covid-19 and the subsequent lockdowns, with clear financial reporting continuing throughout the year.

Financial performance and monitoring

The College reported a deficit of £0.85 million for the year (2019/20: deficit of £1.29 million). Following an actuarial gain of £3.6 million, the College reported total comprehensive income of £2.747 million (2019/20: expenditure of £2.648 million). The College had a small operating deficit after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £15,000 (2019/20: £0.25 million).

2020/21 was the first full financial year that the College had fully operated in the context of Covid-19 and the financial performance in 2020/21 was significantly impacted. Despite the challenges that this brought, the College was able to improve their operating deficit largely due to additional funding from the SFC, Coronavirus Job Retention Scheme and reductions in other operating expenses.

In line with previous years, the College's financial performance was monitored throughout the year by the senior leadership team and the Finance and General Purposes Committee and Board of Management. This process was not impacted by Covid-19, and there is evidence of financial monitoring, reporting and planning by the Board of Management, Finance and General Purposes and Audit committees through the financial year, up to the approval of the 2021/22 budget.

Throughout 2020/21 management reported continuing budget pressures and variances through its financial reporting. While there were significant variances in the year, we are satisfied these related to the impact of Covid-19 on College operations and additional funding awarded late in the financial year. During the year, the College received £0.22 million in sustainability funding. This was used to fund a voluntary severance scheme for refectory staff, following the decision to close the student restaurant facilities during the lockdown period.

As in 2019/20, the College was unable to set a balanced budget for 2021/22. This was communicated to the RSB and SFC.

Impact of Covid-19 on systems of internal control

Within the Annual Governance Statement, the College has concluded that they have obtained assurance that the system of internal control was operating effectively during the year. Throughout our audit of the financial statements, we considered 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 June 2021, and updated our understanding as part of the yearend audit. Our work has not identified any significant weaknesses in the College's systems of internal control. In particular, we have not identified any significant changes to the design and implementation of controls as a result of the impact of Covid-19 on working arrangements.

National Fraud Initiative (NFI)

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

The College received matches for investigation in January 2021 and results of the investigation will be recorded on the NFI system. We noted progress continued to be made by the College and that we had no matters to report.

Governance and Transparency

The key features of good governance remained in place at the College and have been operating throughout the Covid-19 lockdowns. The College responded quickly to ensure that governance arrangements were appropriate and operating effectively in light of the impact of Covid-19.

The results of the externally facilitated Board Effectiveness Review provided substantial assurance in relation to the processes in place. A number of opportunities to make improvement, including induction and training arrangements for student representatives on the Board of Management. The College has used its Governance Statement to disclose the actions planned to respond to the action plan, including improvements secured to date.

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Annual Governance Statement

The College has demonstrated throughout the year that it has the key requirements for good governance in place. The key aspects of governance, including the changes required as a result of Covid-19 lockdown arrangements are required to be disclosed in the College's Annual Governance Statement within the financial statements. We reviewed the governance statement against the requirements outlined in the SFC's 2020/21 Accounts Direction and our understanding of governance arrangements in place up to 31 July 2021.

Our consideration of the governance statement has included:

- ▶ ensuring that the College has met all requirements of the SFC's 2020/21 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 were satisfied that the governance statement met the requirements in all material respects, including:

- ▶ the requirement to explain any areas of non-compliance with the Code of Good Governance; and
- ▶ the disclosure of the impact on the College of a cyber incident at UHI.

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.

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. Since March 2020, all Board and committee meetings have continued as scheduled via remote working arrangements, and all relevant business continued to be considered as required.

Enquiries of those charged with governance

In line with previous years, we formally wrote to the Chair of the Audit 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 Committee. For 2020/21, the internal auditor's opinion notes that, 'the College has adequate and effective arrangements for risk management, control and governance.'

Board External Effectiveness Review

All colleges are required to undertake an external effectiveness review (EER) at least every 3 years, in accordance with the Code of Good Governance for Scotland's Colleges. The Board commissioned the newly appointed internal auditors to conduct the EER to ensure compliance with the governance requirements set out by the SFC. The review was carried out in the period December 2020 to March 2021.

The College fulfilled the mandatory requirement to conduct an external Board Effectiveness Review in 2020/21. The College has reflected the areas of improvement identified during the review in the Governance Statement.

Overall, the internal auditors were able to provide a substantial level of assurance over the effectiveness of the Board of Management. A number of areas of good practice were identified including the role performed by the Chair of the Board of Management and the partnership working and engagement with regional partners.

A number of areas of areas of improvement were identified, including the need to continue to improve induction and training arrangements with student representatives on the Board. Specific weaknesses, including meeting the training and development needs of all Board members are highlighted within the College's governance statement as areas for improvement, along with actions undertaken to date in response.

UHI Cyber Incident

The UHI partnership suffered a Cyber Incident in March 2021. Many other colleges and universities in the UK were also affected during the past 24 months, and this had a serious impact on the College, with many of the main IT systems being temporarily unavailable. Whilst main services were restored as efficiently as possible, staff had to move to cloud storage, as opposed to maintaining files on network drives, and this caused major disruption to the College for the remainder of the academic year.

Overall, we have seen a minor impact on the financial statement audit. We noted that due to the use of the cloud storage this has caused delays in accessibility to information and we understand that some information was lost in the transfer. We note that this continues to add pressure to the College finance team.



A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit committee

D - Adjustments identified during the audit

E - Current and Prior Year Action Plan

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 are not aware of any inconsistencies between the College's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

Audit Fees

	2020/21	2019/20
Component of fee:		
Auditor remuneration - expected fee	£16,610	£16,130
Additional audit procedures (see below)	£2,000	£6,400
Audit Scotland fixed charges:		
Pooled costs	£1,070	£920
Contribution to Audit Scotland costs	£700	£880
Total fee	£20,380	£24,330

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

The fee variation of £2,000 reflects the additional work which was required to:

- ▶ audit the liability side of the Local Government pension scheme in light of new requirements over the audit of estimates under ISA 540; and
- ▶ the additional work from inclusion of the financial management wider scope dimension, and the requirement to reduce materiality on our audit testing.

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 2021 UK Transparency Report can be accessed on our website at https://www.ey.com/en_uk/who-we-are/transparency-report-2021. 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 College since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix C: Required communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>

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

Appendix D: Adjustments identified during the audit

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

Adjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<i>Adjustment relating to late SFC confirmation of 2020/21 job evaluation funding</i>	DR Expenditure £242,049 CR SFC Income £242,049	DR Accrued income £242,049 CR Accrued Expenditure £242,049
2	<i>Adjustment of Deferred Capital Grant >1 year and <1 year split.</i>	None	Dr DCG Liability, after 1 year £102,359 Cr DCG Liability, within 1 year £102,359
3	<i>Split of prior year carried forward accrued income and expenditure for job evaluation</i>	None	Dr Other Debtors £463,928 Cr Other Creditors £463,928

Unadjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<i>Unrecorded accrual</i>	DR Deferred income £27,993	CR Accruals £27,993
2	<i>Accrual for expenditure not yet incurred</i>	CR Expenditure £50,000	DR Accruals £50,000
Overall impact		£22,007	£22,007

Appendix E: Action Plan

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	Recommendation	Management response / Implementation timeframe
1	<p>As in 2019/20, the College was unable to set a balanced budget for 2021/22. The College's medium term financial planning forecasts significant deficits over the next three years.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The Board must work with the UHI Regional Strategic Body to develop a sustainable financial plan for future years.</p>	<p>Response: Noted and agreed. We are continuing to work on short and long term solutions, with the RSB where appropriate, to ensure the long term financial stability of the College.</p> <p>Responsible officer: FD</p> <p>Implementation date: Immediately and ongoing.</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 2020/21 audit cycle.

	Audit Activity	Deliverable	Timing
APR	▶ Audit planning and setting scope and strategy for the 2020/21 audit	Annual Audit Plan	May 2021
MAY			
JUN	▶ Walkthrough Visit	Completion of internal documentation	June 2021
JUL			
NOV	▶ Year-end substantive audit fieldwork on unaudited financial statements	Submit Audit Scotland minimum dataset request	December 2021/January 2022
DEC			
JAN	▶ Conclude on results of audit procedures	Issue Annual Audit Report	February 2022
FEB	▶ Issue opinion on the College's financial statements	Audited Financial Statements	February 2022

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