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

New College Lanarkshire
Year ended 31 July 2021

mazars

Contents

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The Audit and Risk Committee
New College Lanarkshire
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14 March 2022

Dear Members,

Annual Audit Report – Year ended 31 July 2021

We are pleased to present our Annual Audit Report for the year ended 31 July 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented to the Audit and Risk Committee on 17 May 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

The scope of our work at South Lanarkshire College, the assigned college to New College Lanarkshire as a Regional Strategic Body, has increased following governance issues arising at the College. Full details of this additional work is included in the South Lanarkshire College Annual Audit Report.

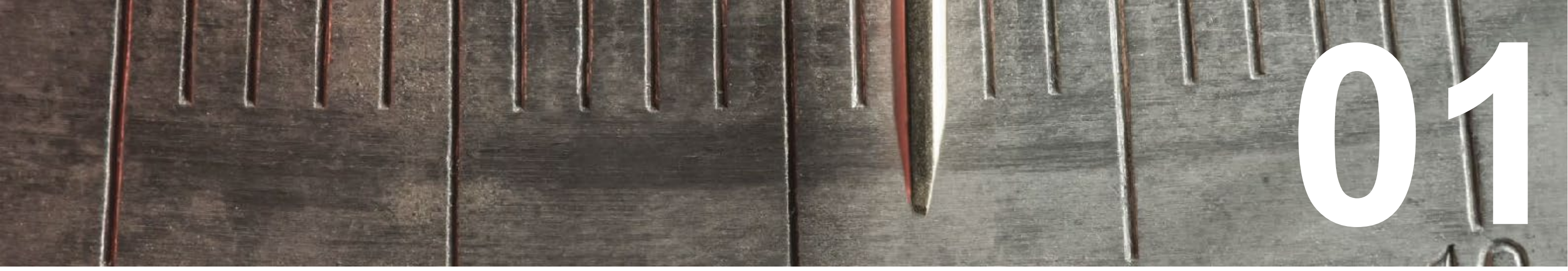
We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me.

Yours faithfully

Lucy Nutley

For and on behalf of Mazars LLP



Executive summary

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of New College Lanarkshire (‘the College’) and the audit of the Lanarkshire Regional consolidated accounts for the year ended 31 July 2021 and forms the basis for discussion at the Audit and Risk Committee meeting on 14 March 2022.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (‘the Code’) issued by Audit Scotland. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Executive summary (continued)

Opinion on the financial statements	We issued an unqualified opinion, without modification, on the financial statements. As outlined in more detail in section 2, we included an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainty disclosed in the consolidated financial statements regarding the Region's land and buildings valuation in the year in respect of South Lanarkshire College.
Opinion on regularity	We issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.
Opinion on other requirements	We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	We concluded as follows against each of the four wider scope dimensions: • The Lanarkshire Board has arrangements in place, including budgetary control, that help the Board members scrutinise finances. Currently, consolidated regional financial information is not available to Board members during the year, but individual college financial information is. • New College Lanarkshire has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over the medium to longer term remains a significant risk. • New College Lanarkshire has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management. As a Regional Strategic Body, there is currently no agreed timeline for the previously proposed regional dissolution and so the Lanarkshire Board continues to have oversight responsibilities of their assigned college. There is recognition of the need to review these arrangements in the coming months; and • The Lanarkshire Board has an effective performance management framework in place that supports progress towards the achievement of value for money

Executive summary (continued)

Internal control recommendations and misstatements

We did not identify any significant control weaknesses during our audit and have not raised any internal control recommendations. An internal control recommendation was made in the prior year and follow up on that recommendation has been considered in section 6.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. We have not identified any misstatements through our audit work.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum on 17 May 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum. Changes to our approach to Wider Scope work were made for the audit of South Lanarkshire College, but this has had no effect on the Regional governance work completed.

Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever-changing business needs. Our aim is to add value to New College Lanarkshire through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set materiality at the planning stage of the audit at £1,148,000 using a benchmark (2%) of total expenditure. Our final assessment of materiality is based on the draft financial statements is £1,148,000 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	1,148	1,148
Performance materiality	918	918
Trivial threshold for errors to be reported to the Audit Committee	34	34

Executive summary (continued)

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Performance Materiality
Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherent risk level assessed. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality. This assessment has not changed during the audit process.

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

Audit of the financial statements

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures, we considered the risks of material misstatement in New College Lanarkshire’s financial statements that required special audit consideration. Although our report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Audit of the financial statements (continued)

Valuation of Land and Buildings (regional accounts)

Description of area of focus

The College prepares consolidated financial statements for the Lanarkshire Region. Included within fixed assets are land and buildings relating to South Lanarkshire College with a net book value of £33m at 31 July 2020.

Both Colleges have individual revaluation cycles with New College Lanarkshire carrying out a full revaluation every five years with an interim desktop revaluation at year three. South Lanarkshire College carry out a full revaluation every three years. Both policies are compliant with the SORP which requires valuations to be undertaken ‘sufficiently regularly’.

At 31 July 2021 South Lanarkshire College land and buildings were revalued to £50m.

Given the significance of the value of fixed assets held, and the level of judgement required in a valuation, we have assessed this as a significant risk.

How our audit addressed this area of management judgement

We addressed this risk through performing our audit work at South Lanarkshire College undertaking a range of substantive procedures including:

- Examining the professional qualifications of the valuer;
- Challenging and substantiating the assumptions and the appropriateness of the date of valuations used by the valuer;
- Ensuring valuations and impairments have been completed on the appropriate basis and that movements are in line with expectation;
- Assessing whether the report produced by the valuer has been appropriately reflected in the South Lanarkshire College accounts and the Regional consolidated financial statements.

Audit conclusion

Included in the consolidated financial statements as at 31 July 2021 is land and buildings with a net book value of £187m, of this regional total £50m relates to land and buildings held by South Lanarkshire College.

The valuation report covering South Lanarkshire College’s land and buildings, provided by management’s external valuer, includes a ‘material valuation uncertainty’ paragraph, arising due to the Covid-19 pandemic. Consequently, the College has included a disclosure, reporting the material valuation uncertainty in the notes to the financial statements. In our view, this matter is fundamental to the understanding of the Regional financial statements and as such we have included an ‘Emphasis of Matter’ paragraph in respect of this disclosure within our Auditor’s Report. This is not a modification of opinion.

Audit of the financial statements (continued)

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Satisfactory assurance has been gained in respect of the presumed risk of management override. We have no matters to report.

Revenue recognition

Description of the risk

There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition, leading to the material misstatement of revenue overall. This isbecause revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised, and if clawback conditions apply to the funding.

The presumption is able to be rebutted, which we have done for the College's grant income, as it carries very low inherent risk of fraud or error in its recognition. However, the risk does apply to non-grant income generated by the College.

How we addressed this risk

We addressed this risk through performing audit work over:

- The design and implementation of controls management has in place to ensure income is recognised in the correct period;
- Cash receipts around year end to ensure they have been recognised in the appropriate year; and
- The judgements made by management in determining when grant income is recognised.

Audit conclusion

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

Audit of the financial statements (continued)

Expenditure recognition

Description of the risk

For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations.

The pressure to manage expenditure to ensure that budgeted outcomes are achieved, increases the risk surrounding fraudulent reporting of expenditure.

How our audit addressed this risk

We have undertaken a range of substantive procedures including:

- The design and implementation of controls management has in place;
- Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the appropriate year; and
- Reviewing judgements about whether the criteria for recognising provisions are satisfied.

Audit conclusion

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

Audit of the financial statements (continued)

Key Areas of Management Judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

Valuation of Pension Liabilities	**Description of area of focus** The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS scheme and it is therefore accounted for as a defined contribution scheme. The College's share of the SPF's underlying assets and liabilities is identifiable, and a net liability is recognised in the accounts. Given the scale of the liability recognised in the accounts, a misstatement in the reported position could be material to the financial statements.
	How we have addressed this area of management judgement We have addressed the risk by: • Considering the arrangements put in place, including the controls, for making estimates in relation to pension entries in the financial statements; and • Considering the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts.
	Audit conclusion There have been no other significant findings arising from our review of the defined benefit liability valuation and disclosures in the financial statements.

Audit of the financial statements (continued)

Grouped assets accounting policy

Description of area of focus

During 2020-21 digital funding was made available to the College for the purchase of equipment provided to students to enable and support remote learning that was required as a consequence of Covid-19. The College is required to account for this as capital funding as a term of the funding.

Any assets acquired using this funding, although distributed to students, are considered the property of the College and will be capitalised under a grouped asset accounting policy.

How we have addressed this area of management judgement

We have addressed the risk by:

- Considering the College's grouped asset accounting policy and whether this is consistent with the requirements of the digital funding provided.
- Enquiring with management as to how the College has satisfied itself that it has appropriate processes in place around the stewardship of the associated assets and what consideration of impairment has been made.

Audit conclusion

Satisfactory assurance has been gained in respect of the risk of Grouped assets accounting policy. We have no matters to report.

Audit of the financial statements (continued)

Valuation of land and buildings (College)

Description of area of focus

The College holds land and buildings with a net book value of £138m as at 31 July 2020.

In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five-year period. As the external valuation was performed at 31 July 2020, no revaluation is planned in the current year.

The College policy meets the requirement of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value. The College is required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date.

Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements.

How we have addressed this area of management judgement

We have addressed the risk by:

- review of management’s assessment as to whether the value still reflects the prior year valuation;
- review of the reconciliation between the College’s asset register and general ledger; and
- consider the College’s impairment review process for land and buildings.

Audit conclusion

Satisfactory assurance has been gained in respect of the risk of the valuation of New College Lanarkshire’s land and buildings. We have identified an area of improvement around the controls in relation to the fixed asset register, a recommendation has been made on page 20. We have no further matters to report.

Regional financial statements consolidation process

Description of area of focus

Regional financial statements are prepared which comprise the financial statements of New College Lanarkshire, South Lanarkshire College and Amcol Scotland Limited.

Management are required to make judgements around the consolidation of the transactions and balances of South Lanarkshire College and Amcol Scotland Limited.

In particular, we will consider managements judgement in the incorporation of the property valuations at South Lanarkshire College which has been raised as a significant risk in respect of both the Regional consolidated financial statements and at South Lanarkshire College.

How we have addressed this area of management judgement

We have addressed the risk by:

- Review of management's judgements relating to the consolidated regional financial statements;
- Review and test the method of consolidation

Audit conclusion

We consider that the preparation of the consolidated regional financial statements is appropriate, and that suitable arrangements are in place to ensure that there is a low risk of material misstatement in the consolidated financial statements.

Audit of the financial statements (continued)

Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2020/21 and were appropriately tailored to the College's circumstances.

The New College Lanarkshire and Regional financial statements and draft annual report were received as planned during fieldwork. Our audit fieldwork began on 25 October 2021 for the College financial statements and on 15 November for the consolidated financial statements. The narrative of the annual report had also been shared with South Lanarkshire College for comment before being presented for audit.

The draft consolidated financial statements and draft annual report were of an adequate quality, with several disclosure amendments suggested.

Producing quality supporting working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers provided for audit were of an adequate standard and staff were responsive to our requests during the audit.

Significant matters discussed with management

No significant matters arose during the course of the audit of the financial statements of New College Lanarkshire.

We were unable to complete our audit of the regional annual report in the agreed timescales as we encountered delays in the audit of South Lanarkshire College where we were not provided with a draft annual report which had been approved by the Principal and Chair during our audit fieldwork. A final version of the Annual Report was not formally presented for audit until February 2022. We have had an ongoing dialogue with management and those charged with governance throughout the audit regarding the governance issues arising at South Lanarkshire College, the RSB response to the issues and their inclusion in the Regional Annual Report and governance statement within.

Significant difficulties during the audit

We completed our audit remotely. During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. The draft accounts, working papers and annual report were all provided in line with the agreed timetable. We would like to express our thanks to management and officers for their co-operation throughout the audit.

As set out above, we have faced difficulties in our audit of the Regional annual report, arising from delays to the preparation and completion of the South Lanarkshire College annual report and governance statement within.

Internal control recommendations

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

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	nil
2 (medium)	In our view, there is a need to strengthen arrangements or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, arrangements should be strengthened in these additional areas when practicable.	nil

Fixed asset register updates – Level 2

It was identified during the audit that the College required to make manual adjustments to reconcile the fixed asset register application, TechOne, and the general ledger. One of these manual adjustments related to an instance of human error when performing a previous annual update to record additions and valuation movements. This has since been corrected by management. We would recommend that updates to TechOne for aspects such as additions and valuations are made on a more regular basis, such as monthly or quarterly, to increase the users' familiarity of the system and reduce the risk of human error.

Potential effects

There is a heightened risk of human error that can lead to misstatement of the accounts where manual adjustments are required. Coupled with infrequent use of functionality within the fixed asset register these adjustments could result in a higher risk of human error.

Management response

The College (NCL) accepts that whilst it addressed and reconciled the issue internally, and this intervention was necessitated by being the first experience of the impact of revaluation on the Cloud based system, there is always a risk with any manual intervention. Formal systems training in this area was lacking and is already scheduled from the software supplier. Additionally, earlier attention will be given to Fixed Asset reconciliation processes prior to Year-end.

Summary of Misstatements

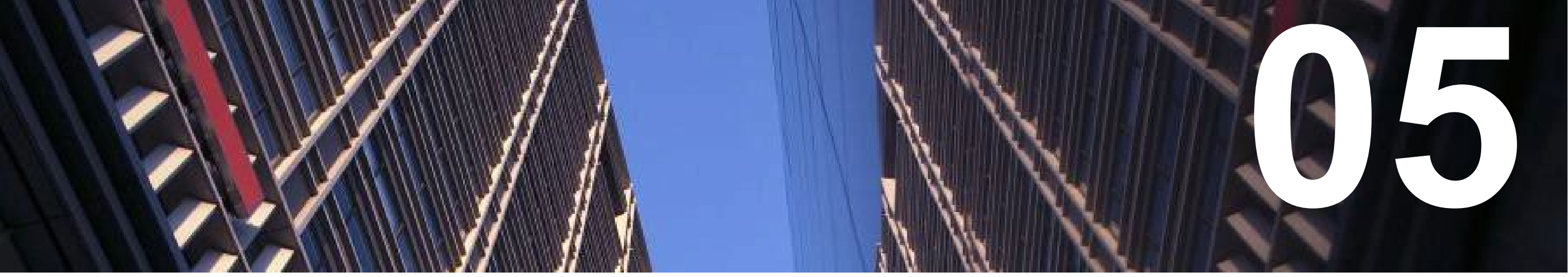
This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £34k.

Adjusted misstatements

There were no adjusted misstatements identified during the course of the audit above the trivial threshold of £34k.

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £34k.



Wider Scope

Our approach to Wider Scope work

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

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

The table overleaf sets out the four dimensions of Wider Scope and our adopted approach.

Wider scope (continued)

Dimension	Description	Our approach
Financial Management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	We have considered: • the monitoring of the effectiveness of • internal control arrangements • the response to the Covid-19 pandemic and whether this has involved changes to the governance of the College • whether the College's budgetary control system is timely and accurate • whether and how the College has assessed their financial capacity and skills
Financial sustainability	Extending our work on the going concern assumption in the financial statements, looking forward two to five years from the reporting date, reviewing, and assessing the college's arrangements for financial planning and affordable and sustainable service delivery.	We have considered: • the financial planning system in place for short, medium and long term periods • the adequacy and accuracy of financial reporting arrangements • the reasonableness of affordability assumptions made in financial planning • the extent to which the financial planning assumptions have been updated and affected by the Covid-19 pandemic
Governance And Transparency	The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review.	We have considered: • the appropriateness of disclosures made in the Governance Statement • whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met
Value for Money	Value for money concerns using resources effectively andcontinually improving services.	We have considered: • the College's evidence of providing value for money • the focus on improving value for money and the pace of change at the College

Wider scope

Financial management

Dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion

The Lanarkshire Board has arrangements in place, including budgetary control, that help Board members scrutinise finances for each College in the Region. Currently, no consolidated regional financial information is available to Board members during the year, but individual college financial information is.

Financial performance

FE/HE SORP position

	Region 2020/21 £'000	Region 2019/20 £'000	*College 2020/21 £'000*	*College 2019/20 £'000*
Operating income	75,418	73,244	*53,339*	*52,531*
Staff costs	(62,193)	(58,617)	*(45,169)*	*(41,929)*
Operating expenditure	(20,185)	(19,663)	*(15,787)*	*(15,125)*
Operating Deficit for the year (FE/HE SORP basis)	(6,960)	(5,036)	*(7,617)*	*(4,523)*

The above table shows the financial performance of the College and the Region for 2020/21 and 2019/20 under the FE/HE SORP.

As reported in the previous year, the initial forecast for the College was income of £55.5m, staff costs of £43.2m and other expenditure of £16.3m with a net operating deficit being forecast of £4.0m.

During the year New College Lanarkshire failed to achieve its core credit target, this is considered to be a consequence of Covid-19 and the challenges faced by the College in delivering credits with Covid-19 restrictions throughout the year. Whilst SFC had ring-fenced core grant in aid funding, failure to meet credit target has resulted in a potential loss of ESF funding for the period of £1.6m. A sector-wide decision is awaited on whether these funds will be clawed back from Colleges that did not meet the target, or the clawback will be spread across all Colleges in a sector-wide adjustment given the associated target is a sector-wide one. Following guidance New College Lanarkshire sought from SFC, they have recognised the possibility of full clawback and have recognised a provision for the full amount as at 31 July 2021.

Staff costs were impacted by delays in enacting voluntary severance scheme resulting in efficiencies not being achieved until later than planned, it was also previously assumed and recognised in the College Business Plan that the SFC would meet the full cost of these schemes. However, this guidance was subsequently changed, and the College were required to meet £0.220m of these costs from its own resources.

Adjusted operating position

The table above sets out the financial position in accordance with the SORP requirements. The table below reflects the 'adjusted operating position' as required by the Accounts Direction set by the SFC. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions. Full details of the adjustments included are shownin the Performance Report within the Annual Report and Financial Statements.

	Region 2020/21 £'000	**Region 2019/20 £'000**	***College 2020/21 £'000***	***College 2019/20 £'000***
Deficit before other gains and losses	(6,690)	(5,036)	*(7,617)*	*(4,523)*
Add back:				
Depreciation (net of deferred capital grant release)	2,108	1,884	*1,814*	*1,605*
Pension adjustment – FRS 102 staff cost adjustment	61	-	*61*	-
Pension adjustments – net interest cost	4,429	3,078	*3,371*	*2,428*
Pension adjustment – net interest cost	518	360	*415*	*283*
Non-cash early retirement adjustments	69	51	*64*	*45*
Underlying operating surplus / (deficit)	**45**	**337**	***(1,892)***	***(162)***

The College (NCL) plus its direct subsidiary Amcol made a combined Underlying Operating Surplus of £48k (2019/2020 £21k) before the clawback of ESF Funds due to failure to meet core Credit delivery.

The Accounts Direction issued by the SFC for 2020/21 required Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. SFC have confirmed they are satisfied with the Adjusted Operating Position calculation reported to them.

The table above shows that once the non-cash and other applicable adjustments are made, the Region has achieved a surplus while the College has made a deficit in the current year.

Financial management (continued)

Impact of Depreciation Budget

The Statement of Comprehensive Income and Expenditure is prepared under the FE/HE SORP, which does not permit the inclusion of the non-cash budget for depreciation. Colleges may show a deficit equivalent to net depreciation as a result of having to meet Government accounting rules.

	Region 2020/21 £'000	Region 2019/20 £'000	*College 2020/21 £'000*	*College 2019/20 £'000*
Operating deficit for the year (FE/HE SORP basis)	(6,960)	(5,036)	*(7,617)*	*(4,523)*
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	974	974	*863*	*863*
Operating Surplus on Central Government accounting basis	**(5,986)**	**(4,062)**	***(6,754)***	***(3,660)***

Financial management (continued)

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements in place at both Colleges and, as a whole on a regional basis. Our review consisted of review of the budget monitoring reports, review of committee papers and attendance at committees.

Finance officers produce monthly management accounts in a regular time frame in accordance with their established processes following the month end. Monthly management reports have reported a consistent position from both Colleges throughout the year, though the impacts of Covid-19 understandably reduced the expected financial outcomes.

The financial position of South Lanarkshire College is reported regularly to the Lanarkshire Board, through provision of approved minutes and reports and verbal updates.

Monitoring reports are included on the agenda of every Finance committee. A review of these minutes and reports to the Board demonstrated effective challenge of the College financial position by members. The Finance Committee has previously been attended by representatives from SLC, generally the Principal, Head of Finance and Financial Accountant. At each meeting minutes and papers from the SLC Finance Committee were presented and noted, following their approval by the SLC Board. During 2020/21 there was a change in arrangements, in light of impending dissolution of the Region on 31 July 2021, which has subsequently not taken place. Arrangements going forward are currently being considered by the Board – see governance and transparency section for more details.

We note that consolidated regional financial information is not produced regularly throughout the year and never has been. The Board of Management consider that there are insufficient resources for this to be provided and is not required to enable them to monitor performance on an ongoing basis. While acknowledging that the annual consolidated regional financial statements are important to provide an overall view of the regional position, management and those charged with governance are content that they do not require financial information on a regional basis during the year to inform decision making or risk assessment.

We will consider during our 2021/22 audit the impact of the whether restructure at New College Lanarkshire that occurred in July 2021 on the overall budgetary review process.

Overall, we consider that the Board of Management obtains financial information that reflects the actual financial position of New College Lanarkshire and South Lanarkshire College, to fulfil their role as an RSB.

Financial management (Continued)

Internal controls

As part of our audit, we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have also considered the work of internal audit, from individual reviews of financial systems and their annual audit opinion on the control framework in place at the College and the Region.

We conclude that the processes and controls in place at the College are operating effectively. The College has all the expected control, risk, performance, and financial arrangements in place. There are a series of regularity documents including standing orders, articles of governance, code of conduct, and financial regulations intended to ensure regularity of transactions.

Prevention and detection of fraud and irregularity

Management and the Audit Committee, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We have a responsibility to review the College's arrangements for the prevention and detection of fraud. Our audit work was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the arrangements in place to be satisfactory and identified no material misstatements resulting from fraud or irregularity.

National Fraud Initiative

The College participates in the National Fraud Initiative (NFI) exercise. New College Lanarkshire data was submitted in line with timescales and the Audit and Risk Committee have been informed of the exercise. No significant findings or issues arose from NFI during the 2020/21 audit process. The College met all deadlines set by the NFI and investigated potential matches in a timely manner.

Wider scope

Financial sustainability

Dimension

Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing, and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

Our conclusion

New College Lanarkshire has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over the medium to longer term remains a significant risk.

Identified significant risks to our wider scope work

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

Financial sustainability (continued)

Financial Sustainability

Description of the risk

Our 2017/18 Annual Audit Report highlighted that a 5-year Lanarkshire Business Plan had been prepared in close collaboration with the SFC. The purpose of the Business Plan was to identify efficiency savings and longer-term cost savings measures that would be implemented to enable the College to move to a financially sustainable operating model.

We reported in our 2019/20 Annual Audit Report that whilst progress had been made in recent years with adherence to the Business Plan, given the challenging landscape for the College sector under Covid-19 conditions, the Business Plan was considered to have run its course and should be updated to reflect the current funding and delivery landscape. During 2020/21 the College has undertaken work to develop 'Strategy 2025', their new five-year strategy, which is due to be published shortly. We understand that work will then begin on a financial strategy that will reflect the needs and aims of the new Strategy.

Given the current climate that the College is operating in with many uncertainties, including future funding, it is imperative that the College has a robust future financial plan. We consider that without such a plan, agreed at Board level, that future financial sustainability remains a significant risk.

How we addressed the risk

We have addressed the risk by considering:

- Work performed to update the Business Plan to integrate with the requirements of the strategy.
- The regular reporting of financial performance arrangements in place at the College and whether these have been operating as expected.
- Whether the forecast position for 2021/22 was achieved and what implications variances from the forecast position may have on future plans.

Wider scope conclusion

Given the change in climate under which the previous Business Plan was prepared and approved and the current environment under which the College is operating, the College has now moved beyond the Business Plan and into the long-term approach of forecasting and budgeting based on the SFC FFR assumption model. The financial sustainability challenges being faced by the College, are considered to be sector-wide issues and as such the SFC forecasting model is relevant. Sector-wide funding constraints and uncertainties remain at this point and therefore we consider that there is a significant risk to the College's financial sustainability.

Financial sustainability (continued)

Financial Planning

The College would normally prepare a 5-year budget and forecast which forms the basis of the Financial Forecast Return (FFR), required to be submitted to the SFC annually. The 2020/21 FFR was prepared using the figures in a baseline budget approved by the Board of Management in June 2021. In the prior year, given the level of uncertainties relating to financial planning, the SFC requested only a 3-year FFR. This approach has been adopted again in the current year due to these uncertainties continuing.

There is no requirement for submission of a Regional FFR and therefore a summary of the College's three-year forecast is included in the table below.

	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Total Income	58,784	58,069	59,217
Staff costs	(42,866)	(43,306)	(43,956)
Total other expenditure	(18,662)	(18,358)	(18,690)
Operating surplus/(deficit) before other gains and losses	**(2,744)**	**(3,595)**	**(3,429)**
Total Depreciation net of deferred capital grant release	2,744	2,747	2,807
Adjusted Operating Result	**0**	**(848)**	**(622)**

Using the assumptions set by the SFC to be reflected in the FFR, the College is forecast to make an overall break-even adjusted operating result position in year 1. This demonstrates that in the short-term, the College should now have achieved the required efficiencies sought in the previous Business Plan to deliver a balanced budget and operate effectively within their resources. In years 2 and 3, however, the College forecasts a deficit of £848k and £622k which indicates if there are no revision to funding in the period, the College will require to make further efficiencies.

The efficiencies achieved by the College to-date have been primarily driven by a series of planned voluntary severance schemes, with the majority of funding provided by the SFC. Guidance from the SFC is now that any future Voluntary Severance schemes should be funded from College resources. Should the College need to make further efficiencies through Voluntary Severance this may prove challenging to fund.

There remains a sector-wide risk relating to uncertainties resulting from the impact of Covid-19, given the College has an existing known future funding gap and required savings in their

Financial sustainability (continued)

plan, we understand the College will require to make further efficiency savings/require to obtain additional income to achieve financial sustainability.

Whilst the College has estimated income based on an expected delivery of credits, it recognises that there remains a significant risk to the financial sustainability should the College be unable to meet credit delivery targets. There are further pressures on the College's ability to meet financial targets including inflationary cost increases, the impact of national bargaining and potential sector budget cuts.

Until such time as either additional funding is made available or the College is able to identify and implement additional cost efficiencies and develop additional income streams, we consider there to be concerns over the financial sustainability of the College.

Governance and transparency (continued)

Governance and transparency

Dimension

Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Our conclusion

New College Lanarkshire has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management. As a Regional Strategic Body, there is currently no agreed timeline for the previously proposed regional dissolution and so the Lanarkshire Board continues to have oversight responsibilities of their assigned college. There is recognition of the need to review these arrangements in the coming months.

Governance arrangements

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

Wider scope

Governance and transparency (continued)

Financial Sustainability

Description of the risk

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

There are many elements that will require to be considered and changed in the coming months to facilitate the dissolution of the RSB. This will be a challenging period and it is imperative that any proposed amendments are carefully and robustly considered, with reasonable timeframes for delivery applied.

How we planned to address the risk

We have addressed the risk by:

- Reviewed the arrangements in place and adapted by the College in respect of the regional separation and the transition period that is now in place.
- We continued to monitor progress against the agreed transition plan.
- We also considered any revised governance framework established by the College and considered this against good practice standards.

Wider scope conclusion

The regional dissolution was intended to be completed for 31 July 2021. Given the wider political challenges being faced by Scottish Ministers with the ongoing Covid-19 pandemic, this was not able to be timetabled for ministerial approval and as such this will be delayed until such time is able to be re-considered. The expected length of the delay is unknown at this time. In light of this and wider governance issues arising at South Lanarkshire College, the College, as RSB has recognised the need to consider the governance structure in place and whether changes are required to enable the RSB to have oversight of regional governance. We have raised a wider scope recommendation at page 43 for the RSB to review the governance structure in place including working with SLC to improve the synchronicity of respective board and committee timetables.

Governance and transparency (continued)

Governance arrangements

Our work in this area has considered the overall governance and scrutiny arrangements in place for the Region, reviewed the financial and performance reporting to the Board, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also considered the governance arrangements set out in the Financial Memorandum agreed between South Lanarkshire College and the Lanarkshire Board in January 2016 and their effect and implementation in practice. We have attended Audit Committees of the Lanarkshire Board and South Lanarkshire College during the year.

The Board currently consists of 21 members, 11 male and 10 female. The College is aware of the objective of the Gender Representation on Public Boards (Scotland) Bill and has met the gender balance recommendations for the Board.

There have been a number of governance issues arising at South Lanarkshire College, the assigned college to New College Lanarkshire as Regional Strategic Body during the 2020/21 year and to the point of completion of our audits. Full details can be found in our Annual Audit Report of South Lanarkshire College.

The Lanarkshire Colleges Order requires that the Chair, Principal, two staff members and one student member of the South Lanarkshire College (SLC) Board are also members of the Lanarkshire Board. This arrangement has been in place for the full 2020/21 year. After the year end, South Lanarkshire College appointed an Acting Chair and Acting Principal to cover a period of absence of the Chair and Principal. The Acting Chair and Acting Principal have therefore become members of the RSB in this interim period. There is no requirement set in the Order for members of the Lanarkshire Board to become members of the SLC Board, or to attend Board meetings, but we note that the Chair of the Lanarkshire Board has been appointed as a member of the SLC Board.

As is standard practice, the Board is reported to by Committees of the Board. Committees meet generally four times a year. The minutes of these meetings are considered as part of the agenda at the immediately following Board meeting. The key Committees are set up in line with the agreed terms of Reference for each. Appropriate College officers attend committees and present reports as required. In prior years, in addition to the SLC membership of the RSB, there was SLC attendance at all sub-committees of the RSB. During 2020-21 there was a change in arrangements, in light of impending dissolution of the Region on 31 July 2021, whereby SLC reported only to the Board as RSB. Dissolution has not taken place as planned, and governance arrangements to enable RSB oversight of SLC are being considered. There has been an initial agreement that the Chairs of both ARCs would attend each others' meetings. The SLC Acting Principal and the Head of Finance will also attend meetings of the RSB ARC. During 2020/21 there was movement in SLC committee and Board meeting cycles timeline which resulted in these becoming unsynchronised, we have therefore raised a recommendation to both the RSB and SLC to review the cycle of meetings going forward to bring these back into line to allow for timely formal reporting to the RSB by SLC.

Committee meeting agenda items are supported by detailed reports each with a cover sheet describing the role of the committee in respect of the report e.g. For Information, For Action etc. so that members are aware of their role.

Wider scope

Governance and transparency (continued)

Covid-19 College Governance arrangements

The College finished face-to-face teaching on Tuesday 17 March 2020. Students were notified through text, email and MyDay notifications as well as reminders on social channels. Live chat was also set up on the website on that day for any queries.

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

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

Board and Committees continued to meet regularly during this period using appropriate virtual platforms. The Chairs' Committee has delegated authority from the Board and this meeting considered the business of the Board for that postponed meeting.

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

Wider scope

Governance and transparency (continued)

Governance Statement

As part of our audit, we have considered the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework.

The governance statement confirms the Lanarkshire's Board compliance with the 2016 Code of Good Governance for Scotland's Colleges.

As the RSB, the governance statement sets out disclosures made in the South Lanarkshire College governance statement financial statements in respect of matters where SLC has not complied with the Code of Good Governance for Scotland's Colleges.

The governance statement includes details of actions taken by the Lanarkshire Board to fulfil their responsibilities as the RSB in response to the events that arose at SLC during the period including progressing recommendations made by SFC, facilitation of the provision of legal advisors, regular contact with SFC, SLC Chair and Acting Chair and the SLC Principal and Acting Principal.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. We also consider that the governance statement has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provides the College with independent assurance on internal control and corporate governance processes. The internal audit function for New College Lanarkshire, and thus the region, is provided by Wylie and Bisset. The financial memorandum between the Lanarkshire Board and SLC requires that SLC has an effective internal audit service which has been provided by Azets. Internal audit has attended Audit and Risk Committees throughout the year and have produced reports which have been reviewed.

At the time of writing, as a result of delays encountered with SLC and their internal auditors, Azets, the Region's Internal Auditors have yet to provide their overall conclusion on regional assurance for the year ended 31 July 2021.

Transparency

Transparency means that service users and the public have access to understandable information about how the College is making decisions and using its resources. There is a commitment to transparency, with the minutes and papers of the Board of Management and key committees being available on the website.

Value for money

Dimension

Value for money concerns using resources effectively and continually improving services.

Our conclusion

Covid-19 has impacted the performance of the College in the year. This is identified in KPI data such as delivery of credit targets and success outcome rates. There is the risk that the evolving climate surrounding Covid-19 may result in a changing appetite around how students access learning that may require the College to consider its performance delivery model.

Notwithstanding the impact of Covid-19 in the year, we consider New College Lanarkshire has an effective performance management framework in place that support progress towards the achievement of value for money.

Performance management

The performance report identifies that the Region failed to meet its 2020/21 SFC core funded target. 160,258 SFC funding credits (the SFC's unit of measure for learner activity) were delivered against a target of 170,545 The Region achieved European Social Fund (ESF) credits of 11,390, which was on target. The failure to meet core credit target is considered a consequence of Covid-19 and the associated challenge in delivering credits during the period with ongoing Covid-19 restrictions. This was anticipated by SFC as being a risk to the sector and core grant in aid funding was ringfenced for the year. The Region provided places for 11,443 full-time equivalent learners.

The performance report further identified that while strategies to improve student retention have been successful, Covid-19 has impacted negatively on success rates.

There is close monitoring of the delivery of the Regional Outcome Agreement and financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget objectives to be achieved. Through management of the 2020/21 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected given the circumstances of the year.

Wider scope

Regularity

As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements. Regular expenditure and income is that which has been incurred / obtained in line with guidance issued by the Scottish Ministers and the terms and conditions of funding of the Scottish Funding Council.

The College has arrangements to monitor the requirements of the Scottish Funding Council, Audit Scotland and other regulatory or advisory bodies to ensure it complies with the terms and conditions of funding including regular reporting of financial and operational performance to the Board of Management and its committees.

Our review found an effective control environment exists over regularity of expenditure and receipts. No instances of non-compliance with Scottish Funding Council terms and conditions were noted.

Wider scope recommendations

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our wider scope work, and that we consider to be of sufficient importance to merit being reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1
2 (medium)	In our view, there is a need to strengthen arrangements or enhance business efficiency. The recommendations should be actioned in the near future.	nil
3 (low)	In our view, arrangements should be strengthened in these additional areas when practicable.	nil

Board and Committee meeting timetable – Level 1

The accountability of the Lanarkshire Board in fulfilling its responsibilities as the RSB to SLC as an assigned College is maintained and monitored through reporting to the RSB on a formal and regular basis. We recommend that the Lanarkshire Board review the governance arrangements in place to ensure that they remain effective in providing the oversight required as the RSB. This should include giving consideration to reciprocity in Chair attendance at all NCL and SLC Board Committee meetings. The Lanarkshire Board should also work with South Lanarkshire College to review the timetabled cycle of meetings to allow for effective and timely reporting by SLC to the RSB, to enable it to meet its oversight role.

Potential effects

With unsynchronised timetables, there is a risk that matters are not reported to the RSB in a timely and efficient manner. To enhance and maintain regional governance, timetables should be brought into line with each other.

Management Response

The Lanarkshire Board has already reviewed the governance arrangements that were put in place in the transition phase to dissolution to July 2021 and implemented that review. At the Lanarkshire Board on the 4th October 2021, the RSB Chair said that in the light of the governance problems at SLC the transitional reporting arrangements would have to be reviewed. He also said that he had written to the SLC Chair to ask him for a recovery plan from SLC by the end of October 2021 which would set out how the governance issues would be addressed and set out a monitoring framework. This resulted in SLC preparing a Governance Improvement Plan which has been approved by the SLC ARC and Board and presented to the RSB ARC. This plan will be a standing item on the agendas for both the SLC and RSB ARC's.

It was agreed that the RSB and SLC ARC Chairs would attend each others meetings and the SLC ARC Chair, Principal and Head of Finance would attend the RSB ARC. The SLC Finance Chair, Principal and Head of Finance would also attend the RSB Finance Committee.

The Chair of the Audit and Risk Committee reported to the RSB ARC meeting on the 6th December 2021 that she had met with the SLC Acting Chair and the Chair of the SLC ARC and had attended the SLC Audit Committee meeting. The SLC Deputy Principal and Head of Finance attended the RSB ARC on the 6th December 2021 and the SLC Acting Principal and Head of Finance attended the RSB ARC on the 21st February and the Finance Committee on the 28th February 2022. Reports were made to those meetings from SLC. The SLC ARC Chair was invited to the RSB ARC meeting on the 21st February 2022.

The RSB Board Secretary provided the dates for the scheduled RSB meetings for 2022 to the SLC Board Secretary on the 6th January 2022. They are now re-synchronising the SLC meetings with those meetings of the RSB.

Our fee

Fees for work as the College’s appointed auditor

We reported our proposed fees for the delivery of our work in our Audit Strategy Memorandum, presented to the Audit Committee on 08 June 2021.

Having completed our work for the 2020/21 financial year and reflecting the additional work we have had to perform surrounding the significant risk on the Governance and Transparency dimension of Wider Scope at South Lanarkshire College and the impact on New College Lanarkshire as the RSB, there will be an additional fee. Additional fees will be calculated using set rates from Audit Scotland. We are in the process of agreeing this with Audit Scotland and the College.

Area of work	Proposed fee 2020/21	Final fee 2020/21
Auditor remuneration	£43,720	£43,720
Additional fee	-	TBC
Pooled costs	£2,590	£2,590
Contribution to Audit Scotland costs	£1,690	£1,690
Total Fee	**£48,000**	**£48,000**

We confirm that we have not undertaken any non-audit services for the College in the year.

Appendix A

Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify anynew actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.