

North East Scotland College

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

16 December 2021



EY

Building a better
working world

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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of North East Scotland College (the College) for financial years 2016/17 to 2021/22. 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.

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Executive Summary: Key Conclusions from our 2020/21 audit

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

Financial Statements

We have concluded our audit of the College's financial statements for the year ended 31 July 2021. One minor audit adjustment was required to be made and there were no unadjusted differences that we were required to communicate. 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 areas where streamlining could occur to support the understandability of narrative sections and ensure focus on key areas.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the disclosures reflect the College's compliance with the Code of Good Governance for Scotland's Colleges, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

Going Concern

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

Wider Scope and Best Value

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

<p>Financial Sustainability</p> <p>The pandemic has resulted in further, significant financial pressures. While additional funding was awarded during 2020/21 which helped ease immediate pressures, the future outlook remains unclear.</p> <p>The College submitted a financial forecast return in October 2021 to the Scottish Funding Council which outlines a marginal deficit for 2021-22 and 2022-23, returning to surplus in 2023-24. A Finance Strategy is in place to manage the challenging financial environment over the period. The College continues to highlight a significant backlog in estates maintenance within its revised Estates Strategy.</p> <p style="text-align: center;">AMBER</p>	<p>Governance and Transparency</p> <p>The Regional Board has strong governance arrangements in place, and internal controls continued to operate effectively throughout the Covid-19 lockdowns. The External Effectiveness Review concluded that the College demonstrates a high level of compliance with the Code of Good Governance for Colleges, and highlights a number of strengths.</p> <p>The College has responded appropriately to an internal audit report which was graded as 'Requires Improvement'.</p> <p style="text-align: center;">GREEN</p>
<p>Financial Management</p> <p>The College reported an adjusted operating surplus of £2.3 million, representing a substantial improvement over 2019/20. The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board and Finance & Resources Committee throughout the year. Revised credits targets for the College have been set by the Scottish Funding Council, and these have been incorporated into budgets and financial plans.</p> <p style="text-align: center;">GREEN</p>	<p>Value for Money</p> <p>Performance has declined against the majority of the College's KPIs during 2020/21, however these are largely indicators which have been impacted by Covid-19 and the resulting remote learning environment.</p> <p>The College took steps to review its structure in 2020/21 to ensure it remains fit for purpose. We were satisfied with the College's arrangements to approve staff severance.</p> <p style="text-align: center;">GREEN</p>



Introduction

Purpose of this report

As a result of the impact of Covid-19, Audit Scotland extended our appointment as external auditor of the College to 2021/22.

In accordance with the Public Finance and Accountability (Scotland) Act 2000 (“the Act”), the Auditor General for Scotland appointed EY as the external auditor of North East Scotland 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 audit committee in June 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 inquiries 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. We remain satisfied that the values reported to you in our Annual Audit Plan remain appropriate

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £1.025 million. We considered whether any change to our materiality was required in light of Covid-19 and the College's 2020/21 financial performance. 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

£1,025,000

2% of the College's operating expenditure

Tolerable Error

£769,000

Materiality at an individual account level

Nominal amount

£51,000

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 four dimensions of wider scope public audit:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money.

Our findings are summarised in Section 3 of this report.



Financial Statements audit

Introduction

The financial statements provide the College with an opportunity to demonstrate accountability for the resources that it controls, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan. The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- the risk of fraud in revenue and expenditure recognition; and
- misstatements due to fraud or error.

Compliance with financial reporting requirements

Management provided draft financial statements and supporting working papers that were of a good standard, and in line with the agreed timetable.

As part of our oversight of the College's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared, predominantly by the finance team, to support the audit. The financial statements were prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustees Investment (Scotland) Act and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Management provided draft financial statements at the start of the audit, in line with the agreed timetable. The financial statements had been updated for the new requirements as outlined in the SFC's 2020/21 Accounts Direction for colleges.

Audit Outcomes

We identified one minor adjusted audit difference arising from the audit which has been reflected within the financial statements. The difference related to the disclosure of donated income and the net impact was below our reporting threshold. Our overall audit opinion is summarised on the following page.

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>In accordance with the work reported on page 17, 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 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

- Our testing has not identified any material misstatements relating to revenue and expenditure recognition. One minor adjustment is reflected in Appendix D. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
- We did not identify any differences in respect of our detailed testing of income and expenditure.
- We have 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 13 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 14 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 £17.1 million (2019/20: £31.9 million) and the present value of the unfunded obligation in relation to early retirements agreed in previous years was £6.1 million (2019/20: £6.5 million). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach included:

- obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of actuarial assumptions underpinning such reports in conjunction with our internal specialists;
- performing substantive testing on the verification of the pension assets. Specifically, we engage with the auditors of North East Scotland Pension Fund in line with the assurance protocols laid out by Audit Scotland for IAS 19 and FRS 102. We also analysed the fund's estimated asset position at 31 July 2021 from both its financial yearend position at 31 March 2020 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 actual investment returns for North East Scotland Council Pension Fund.
- 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

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. In 2020 we reported that the Royal Institute of Chartered Surveyors (RICS) issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty in the valuation of assets at 31 July 2020. This guidance was subsequently removed by 31 July 2021.

The College obtained a desktop valuation from their external valuer to support management's assessment of whether the valuation has materially changed from the carrying value. No change was required as a result of this review and the College's PPE totals £103.3 million, a decrease of £1.4 million from 2019/20. This movement includes additions of £0.75 million and depreciation of £2.1 million.

Our approach focused on:

- analysis of the valuation of the College's estate, including consideration of the source data used, inquiries as to the procedures used by management's specialist, assessment of the reasonableness of the assumptions and methods used in the valuation, consideration of the appropriateness of the timing of when the specialist carried out the work, and assessment of whether the substance of the specialist's findings are properly reflected in the financial statements;
- assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation; and
- consideration of the appropriateness of disclosures made by the College in the financial statements in respect to the approach to valuation at 31 July 2021.

Our conclusions

- We concluded that there were no material audit differences in the approach or conclusions around management's valuation of the College's estate at 31 July 2021.

Going concern

In accordance with the FReM, the College shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still require auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

The rationale for going concern remains the same, but we 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 31 July 2023 with the cashflow forecast based on the financial forecast return submitted to the Scottish Funding Council in October 2021.

After completing its going concern assessment in line with the information and support provided through the earlier discussions in the audit process, the College has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the College's financial position going forward in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- the completeness of factors considered in management's going concern assessment;
- the integrity and robustness of the underlying cash flow forecasts supporting future financial projections, in particular if the College projects to require financial support during the going concern assessment period; and
- the completeness of disclosures in the financial statements in relation to going concern and future financial performance in line with the requirements of the SFC 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.
- We worked with management to enhance some of the disclosures in relation to going concern and the expected medium term impact of Covid-19 which have been appropriately reflected within the College financial statements.



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.

Wider Scope dimensions

Financial Sustainability:

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

Financial Management:

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

Governance and Transparency:

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

Value for Money

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

We outlined in our Annual Audit Plan, 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 financial environment in which the College operates was already challenging, and the Covid-19 pandemic has resulted in further, significant financial pressures, and creates a risk that the College will not be able to develop viable and sustainable financial plans due to external factors. While additional funding was awarded during 2020/21 which helped ease immediate pressures, the future outlook remains unclear.

The College submitted a financial forecast return in October 2021 to the Scottish Funding Council which outlines a marginal deficit for 2021-22 and 2022-23, returning to surplus in 2023-24. A Finance Strategy is in place to manage the challenging financial environment over the period. The College has continued to highlight a significant backlog in estates maintenance within its revised Estates Strategy.

Financial sustainability in the College sector

In June 2021, the Scottish Funding Council (SFC) published the final phase of a review into how they could best fulfil their mission of securing coherent, good quality, sustainable tertiary education and research in these changing times. In October 2021, the Scottish Government published their response to the review's recommendations. The Scottish Government broadly accepted the SFC recommendation, although recognised 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 sectors finances, however challenges remain in future years.

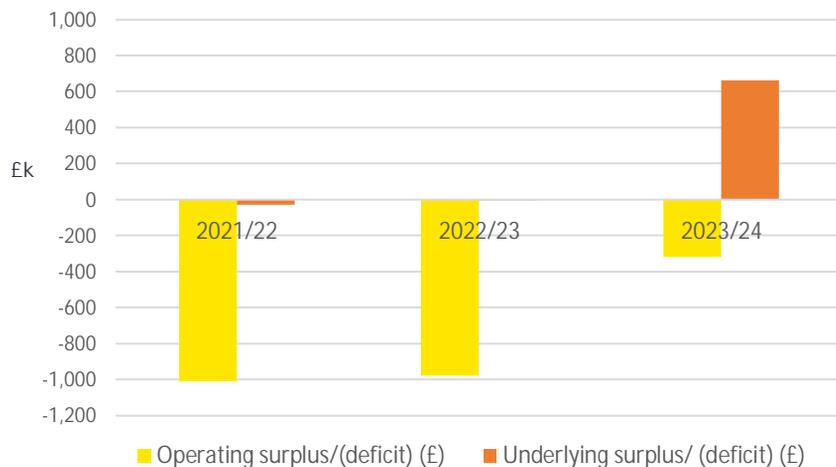
The SFC has recognised a number of key risk areas that could adversely impact colleges' financial performance and sustainability including:

- 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 these to the SFC in the form of the template Financial Forecast Return ('FFR'). The forecast is based on assumptions provided by the SFC in addition to College specific assumptions for areas such as other income and staff numbers, as included within the College's Budget and Financial Plan. The assumptions have been subject to scrutiny by the College's Finance & Resources Committee and the Board. As Exhibit 1 demonstrates, this analysis forecasts an overall surplus across the period to 2023-24, with small deficits in the interim years.

Exhibit 1: The College's FFR highlights that the College is forecasting a modest underlying surplus in 2021/22 and 2023/24 with an underlying deficit in 2022/23. An accounting surplus is forecast in 2021/22 with deficits in the following financial years to 31 July 2024.



Source: North East Scotland College Financial Forecast Return, October 2021

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

- Underachievement of income as a consequence of the pandemic both in relation to student numbers and commercial income, together with added costs as a result of adaptations, consumables and staff.
- Reduction in credit targets.
- Nationally negotiated pay award resulting in unsustainable increases to the staff cost base.
- Difficulties in making full use of Flexible Workforce Development Fund (FWDF) opportunities due to the challenges of fulfilling coursework during the pandemic.

The College has also noted that insufficient funding has been available to address backlog maintenance and other works to ensure that the estate is fit for purpose. This is likely to have an increasing impact in the medium term.

Strategic Plan 2021-23

The Regional Board has developed its new Strategic Plan to address the challenges for the College and the wider region economy as it seeks to recover from the impact of the pandemic. The plan is structured against five key strategic themes, including leading sustainability. The Finance Strategy underpinning the plan highlights the need to work closely with the SFC to achieve sustainable levels of funding to support local and national priorities and support effective workforce and curriculum planning. The College also aims to increase commercial income year on year to reduce overall reliance on SFC funding.

The Regional Board has also approved an updated Estates Strategy as part of the strategic planning arrangements. The Estates Strategy reflects updated assumptions about funding availability via the SFC, and outlines priorities for development in the next ten years.

Going concern cash flow forecasting

We have outlined our work in respect of going concern earlier in 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 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 £4 million.

The College's severe downside cash flow forecasts demonstrates it has headroom of £3.3 million at the lowest point in its going concern assessment period. It has considered the impact of the following stresses on cash flow during the period:

1. Increases in staff costs, reflecting the risk related to nationally negotiated pay awards;
2. Increases in social security costs, reflecting the increase in national insurance assumptions without funding from the SFC; and
3. Increases in pension costs of 1% per annum.

On this basis, management has concluded that there is no plausible scenario where the College will require financial support to meet its liabilities during the going concern assessment period. The College has indicated to the SFC that mitigating actions to respond to higher than anticipated expenditure may include the promotion of a voluntary severance scheme.

Financial Management

The College reported an adjusted operating surplus of £2.3 million, representing a substantial improvement over 2019/20.

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

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

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Financial performance and monitoring

The College reported a consolidated deficit of £0.9 million for the year (2019/20: deficit of £2.308 million). Following an actuarial gain of £16.96m million, the College reported total comprehensive surplus of £16 million (2019/20: £3.211 million deficit). The College had an operating surplus after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £2.33 million (2019/20: £0.584 million).

2020/21 was the first full financial year that the College operated in the context of Covid-19. The College's financial and operational performance in 2020/21 was significantly impacted by the pandemic but despite the challenges, the College was able to make significant improvement to the operating deficit, largely due to additional SFC funding of £1.035 million. Early in the pandemic, the Finance Team made arrangements to track and expenditure that fully related to the pandemic within a separate project code. This was supported by guidance to budget holders and has allowed detailed tracking of additional expenditure.

In line with previous years, the College's financial performance was monitored throughout by management and the Finance & Resources Committee. This process was not impacted by Covid-19, and there is evidence of financial monitoring, reporting and planning by the Board and Finance & Resources Committee through the financial year, including the approval of the 2021/22 budget and Medium Term Financial Plan 2022-23 to 2025-26.

As expected, throughout 2020/21 management reported budget pressures and variances through its management accounting. While the variances were significant 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 and are not indicative of a breakdown in internal control.

Achievement of Credits

The 2020/21 target for credits was set at 132,005 which was built into the budget for 2020/21. Despite the impact of the pandemic, the College prioritised the completion of coursework as far as possible to minimise the level of deferrals to 2021/22. The College achieved credits of 133,127, therefore exceeding the target. The 2021/22 credits target was set at 135,990, based on an expectation that there should be a further reduction in distance learning. This has been factored into the budget but achieving an increase of this level has been highlighted as a key risk in 2021/22 as a result of the continuing social distancing measures.

Impact of Covid-19 on systems of internal control

Within the Annual Governance Statement, the Regional Board has concluded that they have obtained assurance that the system of internal control was operating effectively during the year. The assurance that the Regional Board takes from the work of the Audit and Risk Committee includes their consideration of internal audit reports and the effectiveness of improvement actions. Through our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work 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 audit fieldwork, which included updating our understanding of the College's Financial Regulations and consideration of any changes made due to the remote environment. 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. 249 matches were identified, but following College review, no frauds were identified.

Governance and Transparency

The Regional Board has strong governance arrangements in place, and internal controls continued to operate effectively throughout the Covid-19 lockdowns. The External Effectiveness Review concluded that the College demonstrates a high level of compliance with the Code of Good Governance for Colleges, and highlights a number of strengths.

The College has responded appropriately to an internal audit report "IT Network Arrangements/Data Protection" which was graded as 'Requires Improvement'. The Audit and Risk Committee has considered regular updates in relation to progress against the action plan, including the College's arrangements for cyber security.

Annual Governance Statement

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

This includes the requirements to conclude on the College's compliance with the 2016 Code of Good Governance for Scotland's Colleges, or to explain any areas of non-compliance. The Regional Board has established a Governance Steering Group, comprised of the Regional Chair, and the Regional Board's two Vice Chairs, and is supported by the Secretary to the Board. The Group undertakes a key role in monitoring compliance with the Code of Good Governance and considering implications of any legislative changes. Our consideration of the governance statement has included:

We consider that the establishment of a Governance Steering Group is leading practice. The Group:

- supports the Regional Board to consider the implications of good practice guidance;
- ensures that the Board's Governance Manual is kept up to date; and
- considers succession planning arrangements.

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

The governance statement included an appropriate level of detail on how governance arrangements were maintained during the revised operating period, as a result of Covid-19.

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.

Risks associated with the pandemic have also been considered by the Board. An updated risk register was created in November 2020 and reviewed by the Audit and Risk Committee and Board in December 2020. It was further updated in August 2021 and presented to the Audit and Risk Committee and Board in September 2021 for approval. We are satisfied that key information continues to be disseminated to the Board and other committees on a timely basis.

The College's early work on campus scenario planning for the closure or socially distance return of campus supported the operational performance in 2020/21

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

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

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

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 College's external effectiveness review was completed in March 2021, and was submitted to the SFC in April 2021 in line with planned timescales. The review concluded that the College demonstrates a high level of compliance with the Code. The report noted many areas of strength including:

- Strategic planning sessions allow the opportunity for the student voice to feed into strategic discussions;
- Strong partnership working, including with Skills Development Scotland, Jobcentre Plus and the third sector;
- Satisfaction with the level of performance information and monitoring achievement against the Regional Outcome Agreement; and
- The College has established risk management processes which allow the effective identification and monitoring of mitigating actions through the Audit and Risk Committee and the Regional Board.

A Regional Board Focus Group demonstrated a high degree of understanding of the social and economic needs of the communities which the College serves and a clear recognition that some of the opportunities and challenges are unique to the Aberdeen and Fraserburgh geographic areas and therefore require a tailored College approach.

Enquiries of those charged with governance

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

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit and Risk Committee. For 2020/21, the internal auditor's opinion notes that "In our opinion, with the exception of [the IT Network Arrangements/Data Protection review], the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2020/21 and in the prior year following our appointment in 2019/20."

The Audit and Risk Committee has considered regular updates in relation to areas of IT risk highlighted by an internal audit review. Their consideration has included the College's arrangements for cyber security.

The internal audit report "IT Network Arrangements/Data Protection" was issued in May 2021 and was graded as 'Requires Improvement'. The report contained five Priority 2 and seven Priority 3 recommendations. The report noted that the latest guidance available from the National Cyber Security Centre was not yet fully embedded, including several weaknesses across the ICT environment and noted potential for cyber-attack and data loss through multiple avenues. The Audit and Risk Committee continues to seek additional reporting to track the progress against the action plan to address the matters raised and strengthen controls, including Cyber Essentials Plus re-certification.

National Reports

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

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

EU withdrawal

There continues to be a significant interest in public bodies' response to risks arising and the impact from EU withdrawal. Management has continued to consider and monitor the arrangements and risks around the UK's departure from the EU. The College is aware that there continues to be a potential for disruption to operations and costs arising from Brexit and continues to review any new information and guidance provided by bodies such as Scottish Government and the SFC as it is published. Management is confident at this stage that the College is mitigated from the immediate direct impacts of EU withdrawal on its operations and funding.

Value for Money

The College Board considered regular updates against the Strategic Plan throughout the year. Performance has declined against the majority of the College's KPIs during 2020/21, however these are largely indicators which have been impacted by Covid-19 and the resulting remote learning environment. Annual priorities which were not able to progress have been rolled forward to AY2020-21 and reviewed appropriately.

The College has a dedicated area of the website for Quality and Key Performance Indicators where it reports on its performance annually.

The College took steps to review its structure in 2020/21 to ensure it remains fit for purpose. We have no matters to report in respect of the College's arrangements around procurement or staff severance.

Performance Reporting

The Strategic Plan 2018-21 identified the five strategic themes that have guided the College since academic year 2018/19. Each strategic theme has accompanying objectives and strategies to support achievement. This includes 27 'Key Strategic Indicators' (KSIs) which the College has monitored over the three year period to measure success. Performance against the 27 KSIs are reported within the financial statements, including actual performance against target, and reporting comparatives for prior years.

Exhibit 2: College performance has declined for 70% of the key performance indicators in 2020/21



Source: North East Scotland College Financial Statements 2020/21

Due to the Covid19 outbreak in 2019/20, a number of KSI targets were not set for 2019/20 or 2020/21. Exhibit 2 notes that performance against only 9 of the 27 KSIs have been reported and that, while the College exceeded target credit levels, learner success indicators were below the targets set. The Board is satisfied that this is entirely due to the complexities and challenges that the College faced during the year due to Covid-19.

Curriculum Management Restructure

As part of the College's strategic planning arrangements, a review of the College's curriculum management team completed in 2020/21. The drivers for change included Following analysis of feedback gathered via a range of formal and informal the need to improve:

- Cross campus teamwork and collaboration.
- Performance and effectiveness of key management roles.
- The approach to campus management and across Aberdeen City, Altens and Fraserburgh campuses.
- Agility and responsiveness of management to the evolving regional economic landscape.
- Delivery and development of a dynamic and responsive curriculum, and associated support functions.
- Financial sustainability and efficient use of the public purse.

The review and restructure process was carried out from January to June 2021 and outlined a leaner and more regionally focused senior curriculum management team. As part of the restructure, a Voluntary Severance scheme was approved by the board in June 2020, which continues to stay open until 31 March 2022. Expressions of interest were requested in September 2020 and we note that five members of staff within Curriculum Management and wider Leadership Teams were successful in their application. The new structure therefore reflects the departure of these individuals. We confirmed that the College had followed the procedures outlined within SFC's guidance for seeking approval for severance schemes and settlement agreements.

Procurement arrangements

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

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



Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the audit and risk committee

D – Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

<p>Corporate Governance</p>	<p>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.</p>
<p>Financial Statements and related reports</p>	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>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.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • 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.
<p>Best Value</p>	<p>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.</p>

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	£33,760	£32,780
Additional audit procedures (see below)	£2,000	£10,000
Audit Scotland fixed charges:		
Pooled costs	£2,180	£1,870
Contribution to Audit Scotland costs	£1,420	£1,790
Total fee	£39,360	£46,440

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.

As we outlined in the annual audit plan, the 2020/21 audit required additional audit procedures to address the College's financial sustainability risk and going concern audit procedures and therefore we included a fee variation of £2,000 as outlined above. No further additional areas of work have been identified during the audit.

Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 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 (AOB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AOB meets monthly and also holds an annual strategy session. The AOB reports to the EY UK Board. The AOB 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 and risk 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>This Annual Audit Report – Appendix B</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This 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>This Annual Audit Report</p>

Appendix D: 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
MAR	<ul style="list-style-type: none"> Walkthrough Visit 	Completion of internal documentation	April 2021
APR			
MAY	<ul style="list-style-type: none"> Audit planning and setting scope and strategy for the 2020/21 audit 	Annual Audit Plan	April/May 2021
JUN			
SEP			
OCT	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Audited Financial Statements	September/October 2021
NOV			
DEC	<ul style="list-style-type: none"> Conclude on results of audit procedures 	Issue Annual Audit Report	31 December 2021
	<ul style="list-style-type: none"> Issue opinion on the College's financial statements 	Submit Audit Scotland minimum dataset request	31 December 2021

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