

Perth College

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

9 March 2022



Building a better
working world

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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Perth 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 issued an unqualified audit opinion on the Group's 2020/21 financial statements.

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

Financial Statements

We have completed our audit of the consolidated and College's financial statements for the year ended 31 July 2021. We identified eight adjusted audit differences arising from the audit which have been reflected within the financial statements. Despite some initial delays to the agreed timetable, the draft financial statements and supporting working papers were delivered in sufficient time to ensure that the reporting deadlines could be achieved. While some improvements were noted in relation to the presentation of the financial statements compared to the prior year, we continued to work with the finance team to ensure material compliance with disclosure requirements.

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 financial environment in which the College operates was already challenging, and the Covid-19 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. The College's FFR was submitted to the Scottish Funding Council in October 2021 showing breakeven adjusted operated position but accounting deficits across the three-year period due to non-cash items. Our assessment of red reflects the ongoing challenges facing Colleges' and the level of risk and uncertainty outside the College's control.</p>	<p>Governance and Transparency</p> <p>The key features of governance have remained in place at the College and have been operating effectively throughout the Covid-19 lockdown. The absence of the Board Secretary for part of the year has resulted in delays in some governance activities being performed including the timely publication of Board and committee minutes on the College website.</p> <p>The College's Annual Governance Statement continues to disclose significant weaknesses in internal control, although we note significant progress against the Board's improvement plan.</p>
<p>RED</p>	<p>AMBER</p>
<p>Financial Management</p> <p>The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board and Finance and General Purposes and Audit committees throughout the year. Improvements have been made to the presentation of financial information to the Board and relevant committees during the year. Opportunities remain to improve financial controls and capacity within the finance team with the recent double salary payment demonstrating the importance of a strong control environment.</p>	<p>Value for Money</p> <p>The College has continued to review the effectiveness of balanced scorecard reporting during 2020/21, with further improvements planned for 2021/22 as part of a revised risk management framework incorporating the balanced scorecard. The College's performance against target has been maintained in comparison to 2019/20 with only 40% of performance measures meeting target partially due to external factors such as EU withdrawal and the Covid-19 pandemic.</p>
<p>RED</p>	<p>AMBER</p>



Introduction

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

Purpose of this report

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

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

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

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

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor. Further information is available in Appendix B.

Scope and responsibilities

The Code sets out the responsibilities of both the College and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the College Audit Committee in May 2021.

The impact of the Covid-19 pandemic

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

- ▶ 2020/21 was the first full year where there were material transactional impacts in the Group and 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 Group and College's financial position and performance.

We updated our assessment of materiality based on the 2020/21 financial performance of the College. Planning materiality was increased from £410,000 to £420,000.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £410,000. 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

£420,000

1.5% of the Group's operating expenditure

Tolerable Error

£210,000

Materiality at an individual account level

Nominal amount

£21,000

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 and Group 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 one area that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition, including through management override of controls.

Compliance with financial reporting requirements

As part of our oversight of the College's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared, predominantly by the finance team, to support the audit.

The financial statements were prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustees Investment (Scotland) Act and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Management provided complete draft financial statements in January 2022 which was later than the agreed timetable. While we noted a number of areas of improvement in the content and structure of the financial statements, there were some areas which required updating to ensure they fully complied with the requirements of the SFC's 2020/21 Accounts Direction for colleges.

Audit Outcomes

We identified eight adjusted audit differences arising from the audit which have been reflected within the financial statements. The differences mainly related to accruals and deferred income errors and reclassifications. Our overall audit opinion is summarised on page 11.

Management provided draft financial statements and supporting working papers slightly later than the agreed timetable. However the timeliness of responses to audit queries has improved.

Group financial statements

The College prepares group financial statements, consolidating the results of the College and its subsidiary undertaking, AST (Engineering) Limited.

We are satisfied that the consolidated financial statements have been prepared appropriately with inter-company transactions eliminated in line with accounting requirements.

Our communications with the component auditors note that the audit of the subsidiary financial statements is materially complete and expected to finalise in March 2022. We have received responses to our group audit instructions. No significant issues have been reported which impact the group.

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

Significant and fraud audit risks

Risk of Fraud in income and expenditure recognition

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

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

Specific procedures relating to significant risks

We undertake specific, additional procedures over income and expenditure streams where we identified a significant risk, including:

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

Our conclusions

- ▶ Our testing did not identify any misstatements relating to revenue and expenditure recognition.
- ▶ We identified a number of audit differences in respect of revenue, expenditure and associated balance sheet accounts as detailed within Appendix D.
- ▶ 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; 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).

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 (Tayside Pension Fund) and the Scottish Teachers Superannuation Scheme (STSS). At 31 July 2021, the College's share of the pension scheme net liability totalled £6.848 million (2019/20: £12.612 million). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach included:

- ▶ obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of actuarial assumptions underpinning such reports in conjunction with our internal specialists;
- ▶ performing substantive testing on the verification of the pension assets. Specifically, we engage with the auditor of Tayside 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 2021 and the prior year end for the College of 31 July 2020 against expectations based on equity and other market movements in that time period;
- ▶ developing our own point estimate for the College's liabilities in the Fund and comparing to the actuary's assessment; and
- ▶ assessing the work of the actuaries in considering the impact of legal rulings impacting the liabilities in the fund.

Our conclusions

- ▶ In calculating the scheme assets as at 31 July 2021 the actuary performs a roll forward technique using investment returns and cash flow data since the last triennial valuation. We have considered the reasonableness of the reported asset position and note that the actuary's estimated investment returns were consistent with our own expectations.
- ▶ We have assessed the reasonableness of the calculation of the College's share of the Fund's liabilities and concluded these are consistent with our expectations.
- ▶ Assumptions used by the actuary and adopted by the College are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

Inherent Risk - Valuation of Property, Plant & Equipment

The Group's property portfolio totals £40.6 million as at 31 July 2021 (2019/20: £41.8 million), with the major elements of this being in respect of land and buildings. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years.

The College is required to consider annually that the valuation of the College estate remains appropriate outside of formal revaluation cycles.

Management engaged external valuers to conduct a full valuation of the land and buildings estate as at 31 July 2020. The impact of Covid-19 on the use of assets and future plans means that we will place significant scrutiny on management's assessment of impairment.

Given the size of this balance and the number of assumptions that are made in the valuation of the College estate, we assign a higher inherent risk to property, plant and equipment.

Our approach focused on:

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

Our conclusions

- ▶ We concluded that there were no material audit differences in the approach and conclusions around management's valuation of the College's estate at 31 July 2021.
- ▶ We recognise the short term impact that Covid-19 has had on the utilisation of the College estate, however given the long term useful lives of the assets and the plans to return to normal teaching arrangements in future we consider the carrying value to remain appropriate. This is something which should be kept under consideration by management should teaching arrangements change on a more permanent basis in the future.

Going concern

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

The rationale for going concern remains the same, 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 of twelve months from the expected date of signing the financial statements. The cashflow forecast is based on the financial forecast return submitted to the Scottish Funding Council in October 2021 and updated for any information which has become available since submission.

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



Wider Scope dimensions

Introduction

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

The Wider Scope dimensions

Financial Management:

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

Financial Sustainability:

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

Governance and Transparency:

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

Value for Money

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

We outlined in our Annual Audit Plan, presented to the Audit Committee in May 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 an accounting deficit across the three years to 31 July 2024, consistent with expectations across the sector. The College has completed the FFR on the basis that a breakeven adjusted operated position needs to be achieved however there are significant risks to achieving this such as potential clawback of funding.

Our assessment reflects the ongoing challenges facing colleges' and the level of risk and uncertainty outside the College's control as well as the College's specific position.

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The context for financial sustainability in the College sector

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

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

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

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

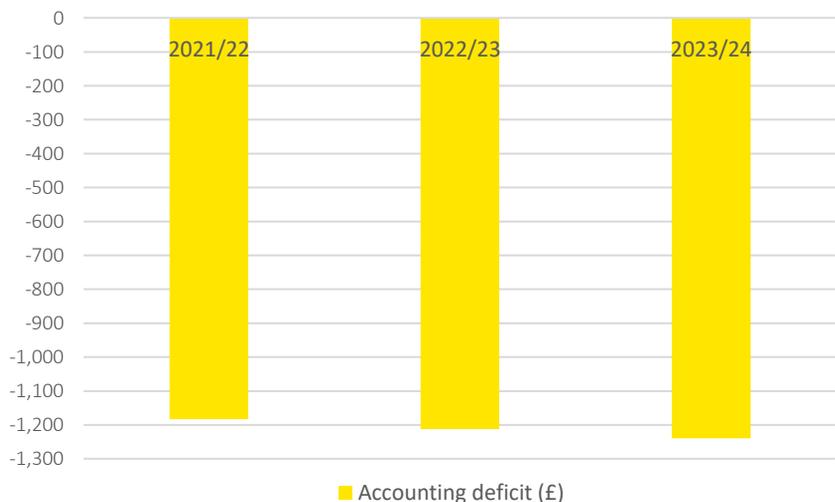
The SFC has recognised a number of key risk areas that could adversely impact colleges' financial performance and sustainability including:

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

Medium term financial forecasting

The College has prepared a three-year financial forecast for the period 2021 to 2024 and submitted 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. The assumptions were subject to scrutiny by and approval from the College's Finance and General Purposes Committee and Board. As Exhibit 1 demonstrates, this analysis forecasts an accounting deficit for the three years of the plan. The FFR shows a breakeven adjusted operating position in each year on the basis that this is what the College should be working towards achieving. Savings plans and income growth are factored into the return.

Exhibit 1: The College's FFR highlights that the College is forecasting an accounting deficit for the three year period to July 2024 driven by non-cash items.



Source: Perth College Financial Forecast Return, October 2021

The College's forecasts recognise significant uncertainty in the current environment. The College has identified the following risks within their forecasts:

- ▶ Uncertainty surrounding potential clawback of funding due to credits targets not being achieved.
- ▶ Reduced student numbers impacting tuition fee income levels.
- ▶ Uncertainty surrounding the finalisation of the job evaluation exercise which is scheduled to conclude during the forecast period.
- ▶ Commercial income uncertain due to competition and other external pressures.

Going concern cash flow forecasting

We have outlined our work in respect of going concern on page 17 of this report. While the College has prepared its financial statements on a going concern basis as required by the FReM for a public body, it is required to consider its ability to meet liabilities as they fall due over the going concern assessment period being at least 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 £3.2 million. Following the preparation of the FFR, management has prepared a detailed cashflow forecast to inform their going concern assessment, using the latest available information, which shows a forecast cash balance of £1.9 million as at March 2023.

Financial Management

The College reported an adjusted operating surplus of £0.997 million, representing an increase of £1.642 million compared to 2019/20. The reported position represented a £2.9 million improvement against budget with the variance being largely related to the impact of Covid-19, Management has established a new budget setting process for 2021/22 which passes greater ownership for the budget to relevant budget owners.

The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board and Finance and General Purposes and Audit committees throughout the year. Improvements have been made to the presentation of financial information to the Board and relevant committees during 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. However there are opportunities to improve financial controls and capacity within the finance team with the recent double salary payment demonstrating the importance of a strong control environment.

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Financial performance and monitoring

The College Group reported a deficit of £1.6 million for the year (2019/20: £2 million). Following an actuarial gain of £7.351 million, the College Group reported total comprehensive income of £5.705 million (2019/20: £0.779 million expenditure). The College had an operating surplus after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £0.997 million (2019/20: £0.645 million deficit).

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

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

We note that the quality of financial analysis and forecasting has improved during the financial year. In July 2020, the College appointed a new Director of Finance with one of the key improvements undertaken to date is the development of a new format of management accounts for budget holders and the Board. Feedback provided to date from committee members on the new format of reports has been positive to date. We will continue to monitor the quality of financial reporting in future years.

Throughout 2020/21 management reported budget pressures and variances through its management accounting. These were significant in the year with the difference between the original budget adjusted operating position and the actual adjusted operating position being approximately £2.9 million. While these largely related to the impact of Covid-19 on College operations and additional funding awarded late in the financial year, a new budget setting approach was implemented for the 2021/22 budget to improve the accuracy of the starting position and pass greater ownership to staff within the College. External factors such as uncertainty around Covid-19 restrictions, potential clawback and additional funding continue to create challenges for the sector in developing accurate forecasts.

Impact of Covid-19 on systems of internal control

Within the Annual Governance Statement, the College has concluded that they have obtained assurance that the system of internal control was operating effectively during the year, with a number of exceptions identified through internal audit work. We are satisfied that the issues arising have been satisfactorily disclosed and that actions are in place to address the weaknesses.

Throughout our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work has included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed. We undertook an initial assessment of the financial control environment as part of our planning work in June 2021, and updated our understanding as part of the yearend audit. Our work has not identified any further significant weaknesses in the College's systems of internal control. In particular, we have not identified any significant changes to the design and implementation of controls as a result of the impact of Covid-19 on working arrangements.

As part of the audit action plan, a review of financial processes and controls within finance is to be performed. Improvements to date have focused on a review of the Financial Regulations, an updated budget setting process, system approval of invoices with purchase orders and improved reporting from the student records system, SITS. Further reviews of key financial processes and controls are planned.

Double salary payment

In October 2021, the College and subsidiary AST, made a double salary payment to their staff of approximately £0.867 million. The incident was promptly identified by the College and steps were taken to try and prevent the payment from being made however the bank were unable to stop the payment once initiated. An internal investigation was undertaken and a detailed report provided to the Joint Finance and Resources and Audit committee in November 2021. This included identified control improvements which management have now implemented such as segregation of BACs authorisation. As at December 2021, £0.830 million had been repaid by staff. While we are satisfied that the College's response to the error was prompt and clear reporting occurred, it does highlight the importance of the College's review of key financial processes and controls to prevent further such incidents.

The College recognises that further improvements to financial processes and controls are required. The double salary payment in October 2021 has highlighted the importance of conducting this exercise in a timely manner.

Financial management resilience of the College remained an area of focus during the year however the continuity of the finance team during the year and planned recruitment exercises will provide further support.

Finance working arrangements and capacity

In the prior year, we reported that the College had experienced significant turnover within the finance team and that this has had a significant impact on the College's ability to provide the Board with the strategic financial planning support that it needs. Following the appointment of a Director of Finance in July 2020, the finance team has had a period of stability, however additional pressures continue to be felt through the impact of working from home on a small team with limited contingency and less sophisticated online systems and processes compared to some institutions.

We do, however, continue to note areas for further improvement, including areas of inefficiency and errors within financial accounting. The review of financial processes should support further improvements in this area however it is noted that this will create additional pressures on an already stretched finance team. Recruitment is underway to provide further skills and capacity within the finance team.

National Fraud Initiative (NFI)

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

The College received matches for investigation in January 2021 and results of the investigation will be recorded on the NFI system. We noted progress continued to be made by the College however challenges accessing the system have led to some delays in investigating matches. A further assessment of the College's participation in the exercise has been reported to Audit Scotland in February 2022. The College has made reasonable progress in investigating matches to date and no actual or suspected fraud has been identified from the work performed.

Governance and Transparency

The key features of governance have remained in place at the College and have been operating effectively throughout the Covid-19 lockdown. The College responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. However, we note that the absence of the Board Secretary for part of the year has resulted in delays in some governance activities being performed including the timely publication of Board and Committee minutes on the College website.

The College's Annual Governance Statement continues to disclose weaknesses in internal control, although we continue to note progress against the Board's improvement plan with 93% of actions now being either complete or partially complete.

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. Our consideration of the governance statement has included:

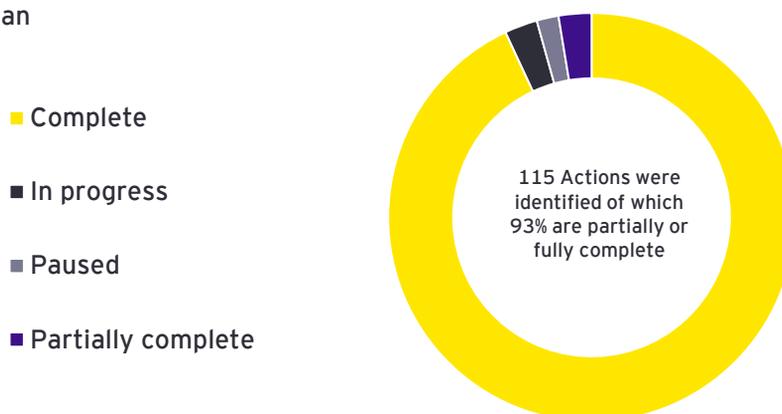
- ▶ ensuring that the College has met all requirements of the SFC's 2020/21 Accounts Direction;
- ▶ ensuring that the content of the statement is consistent with our understanding of the College's governance arrangements and any issues identified during the year; and
- ▶ ensuring that the College has performed a self-assessment of compliance with the Code of Good Governance for Scotland's Colleges and that this assessment is reflected in the statement.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the Code of Good Governance for Scotland's Colleges. The governance statement included an appropriate level of detail on how governance arrangements were maintained during the revised operating period, as a result of Covid-19.

Improvement Action Plan

The College responded to a number of external and internal audit reports in 2018/19 which identified a series of significant control weaknesses. As a result, the College developed a significant action plan to monitor progress both against audit recommendations and in further improvements identified by the Senior Management Team. As a result, 115 individual actions were identified. Progress against the action plan has been tracked by the College's planning and performance team and reported to the Joint Finance and Audit committee. As Exhibit 1 notes, as at November 2021, 93% of actions are fully or partially complete.

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



Source: Perth College Action Plan Monitoring Report, November 2021

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

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 the 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.

The College should ensure that the Board secretary has appropriate support to ensure governance activities continue as normal during any periods of absence.

Minutes and papers of relevant Board and committee meetings should be published on the College website in a timely manner.

See Appendix E, Recommendation 1.

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.

We have however noted that the absence of the Board Secretary, for part of the year, has resulted in delays in some governance activities being performed including the timely publication of Board and committee minutes on the College website. The last publicly available meeting pack for the Board is October 2020. This highlights the key person dependency within the College.

Internal audit

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit Committee. For 2020/21, the internal auditor's opinion notes that, 'In our opinion, with the exception of the issues highlighted in paragraphs 1.11 and 1.12, the College has adequate and effective arrangements for risk management, control, and governance. With the exception of the efficiency issues around HR processes highlighted in paragraph 1.12, proper arrangements are in place to promote and secure Value for Money.' Paragraphs 1.11 and 1.12 refer to improvements required in HR processes and asset management. Good progress in implementing previous internal audit actions was noted.

UHI Cyber Incident

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

Overall, we have seen a minor impact on the financial statement audit. We noted that due to the use of the cloud storage this has caused delays in staff's accessibility to information and some information was lost in the transfer. Where evidence had been missing other sources of support were provided enabling us to conclude on our testing. We note that this continues to add pressure to the College finance team.

Value for Money

The College has continued to review the effectiveness of balanced scorecard reporting during 2020/21, with further improvements planned for 2021/22 as part of a revised risk management framework incorporating the balanced scorecard. The College's performance against target has been maintained in comparison to 2019/20 with only 40% of performance measures meeting target.

Improvements have been made in relation to procurement processes however further changes are required to ensure compliance with the relevant guidance and best practice.

Strategic Plan 2016-21

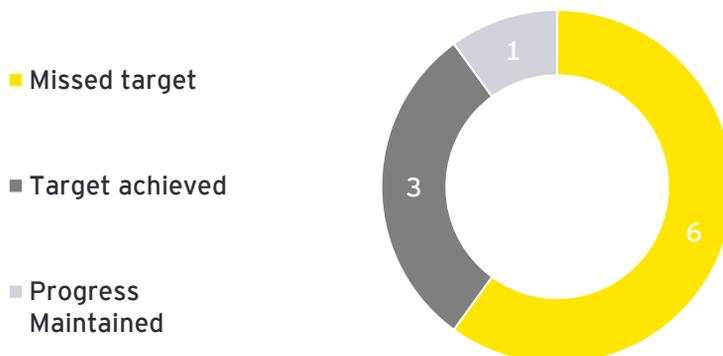
The College's Strategic Plan 2016-21 was published in June 2016. Performance has been reviewed against the four strategic objectives within a balanced scorecard covering:

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

The College continues to report performance through the balanced scorecard to the Board throughout the year.

Exhibit 3 highlights that the College missed the target for 60% of the measures for which data is available. This is in line with performance at the same point in 2020. Targets not achieved relate to student satisfaction (4 KPIs) and student and staff achieving their potential (2 KPIs). As the first full year of the College operating during the Covid-19 pandemic, a decline in performance statistics, including for example student experience, are not unexpected however the College should continue to monitor and identify any improvements that can be made.

Exhibit 3: College missed the target set for 60% of the key performance indicators reported to date in 2020/21



Source: Perth College Balanced Scorecard Progress Report, October 2021

The College should aim to publish performance information on their website on a more timely manner.

See Appendix E, recommendation 2.

KPI reporting

We reviewed the College's approach to public reporting and note that the College has a dedicated area of the website for Performance Indicators and External Review. We note that the College has published the results for 2019/20, with its commentary in July 2021 however no data has yet been published for 2020/21.

Risk Management framework

The College's strategic plan is due to be revised in 2021-22. The Board, Finance and Audit committees have endorsed a proposal to revise the risk management framework. This framework would incorporate the Balance Scorecard with the approach of aiming to greater align strategy with risk. The intention is for strategic KPIs to be translated through the balanced scorecard into operational targets allowing individuals and their departments to see the strategic impact of their work. We will monitor the development of the revised strategy and risk management framework including any amendments to performance reporting in our 2021/22 audit.

Procurement arrangements

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

The College approved both a revised procurement strategy and policy in March 2020 taking account of the weaknesses identified. These will be due for review in 2022 following the development of the new strategic plan.

The Annual Procurement Report for 2020/21 was presented to the Finance and General Purposes Committee in November 2021 and covers a period of 4 years. The College exceeded the Scottish Government target of 40% of non-pay spend to be procured through National Frameworks by 1% which represents a significant increase of 9% compared to 2020/21. This highlights the improvements that have been made with the College's procurement function.

Further improvements are required with the report noting non-compliance with 10 areas of spend where contracts are not in place. This is a focus of the procurement team moving forward to ensure compliant contracts are in place.

Work additionally continues to ensure that purchases orders are in place for all expenditure with a 'no PO, no pay' policy being implemented.

Voluntary Severance Scheme

During 2020/21, 10 individuals left the College under voluntary severance agreements or redundancy with 1 other departure. We confirmed that the College had followed the procedures outlined within SFC's guidance for seeking approval for severance schemes and settlement agreements.



Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit committee

D - Adjusted errors identified during the audit

E - Current and Prior Year Action Plan

F - Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

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

Financial Statements and related reports

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

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

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

Standards of conduct / prevention and detection of fraud and error

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

Standards of conduct / prevention and detection of fraud and error

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

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

Best Value

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

Appendix B: Independence and audit quality

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

Matters that we are required to communicate

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

There are no relationships from 1 August 2020 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	£18,890	£18,340
Additional audit procedures (see below)	£8,400	£16,500
Audit Scotland fixed charges:		
Pooled costs	£1,220	£880
Contribution to Audit Scotland costs	£800	£930
Total fee	£29,310	£36,650

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

The fee variation of £8,400 reflects our additional work which was required around the College's financial sustainability risk, the additional work from inclusion of the financial management and value for money wider scope dimensions, the follow up work required from a number of outstanding areas of focus in prior years, and the requirement to reduce materiality on our audit testing.

Matters that we are required to communicate

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

The EY 2021 UK Transparency Report can be accessed on our website at https://www.ey.com/en_uk/who-we-are/transparency-report-2021. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

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

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

Audit Quality Framework / Annual Audit Quality Report

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

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

The most recent audit quality report which covers our work at the College since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix C: Required communications

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

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

Required communication

Our reporting to you

Group audits

Annual Audit Plan

- ▶ An overview of the type of work to be performed on the financial information of the components
- ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components
- ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work
- ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted
- ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements

This Annual Audit Report

Appendix D: Errors identified during the audit - Adjusted

This Appendix sets out the eight (2019/20: ten) adjustments processed in the financial statements finalisation.

[Adjusted] differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Prepayment reclassification</i>			DR Trade Creditors £126,225 CR Prepayments £126,225
2	<i>Accrued income correction (updated information available post year end)</i>	DR Revenue £32,843		CR Accrued income £32,843
3	<i>Accrued expenditure (updated information available post year end)</i>	CR Expenditure £39,412		DR Accruals £39,412
4	<i>Deferred Income reclassification</i>			DR Deferred Income £297,382 CR Debtors £297,382
5	<i>Audit fee accrual</i>	CR Expenditure £7,580		DR Accruals £7,580
6	<i>Bad debt provision</i>	CR Bad debt expense £18,524		DR Bad debt provision £18,524
7	<i>Tuition fee income</i>	DR Tuition fee income £16,980		CR Accrued Income £16,980
8	<i>Exit packages accrual adjustment</i>	CR Expenditure £40,117		DR Accruals £40,117

Appendix E: Action Plan, including an update on prior year recommendations

This action plan summarises specific recommendations included within the 2019/20 Annual Audit Report and the latest status in respect of management's agreed actions.

Classification of recommendations

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

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

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

No.	Findings and recommendation	Management response / Implementation timeframe
1	<p>The College should ensure that the Board secretary has appropriate support to ensure governance activities continue as normal during any periods of absence.</p> <p>Minutes and papers of relevant Board and Committee meetings should be published on the College website in a timely manner.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Response:</p> <p>We agree that the Board Secretary role should have a back-up to ensure governance activities continue as normal during any periods of absence. The College will identify and train a resource to provide back-up to the Board Secretary.</p> <p>Responsible officer:</p> <p>SMT</p> <p>Implementation date:</p> <p>August 2022</p>
2	<p>The College should ensure that the annual performance report is published on the College website on a timely manner to ensure key stakeholders have access to performance information.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Response:</p> <p>We agree that the annual performance report must published on the College website in a timely manner. The College will develop a checklist of all documents that must published with relevant deadlines and ensure that the checklist is completed each month. This checklist will also be reviewed at each Audit Committee meeting. The checklist will be in place from the May/June 2022 Audit Committee meeting.</p> <p>Responsible officer:</p> <p>SMT</p> <p>Implementation date:</p> <p>June 2022</p>

Prior year recommendations follow up

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

No.	Findings and recommendation	Original Management response	Update on status
2	<p>As part of the additional work we were asked to perform on deferred income, we noted that management records and communication across College departments were ineffective. There is therefore a risk that income is not reflected accurately within financial statements.</p> <p>The Finance Team should review the processes in place to record and track all sources of income.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The deferred income issue was raised with our External Auditors in March 2019 and was reported to Audit, FGPC, Chairs Committees and the Board, as well as to SFC in February 2019. Regular updates were provided as the situation developed.</p> <p>Discussions concluded with External Audit in August 2019 when it was confirmed that income could be appropriately released into 2018/19 with a non-material amount of deferred income relating to previous financial years.</p> <p>Actions</p> <p>An improved budgeting and contract management process to record and monitor performance milestones is underway.</p> <p>Improved communication between Finance and College teams to plan and monitor income and expenditure.</p> <p>Responsible officer: VP/ HoF Implementation date: June 2020</p>	<p>We have noted improvements in regard to documentation available to support deferred income balances. We do continue to observe some small errors in respect of income recognition and therefore this should continue to be an area of focus.</p> <p>Our assessment: In progress</p>

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

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

No.	Findings and recommendation	Original Management response	Update on status
6	<p>Staff costs within the Financial Forecast Return have been reduced to reflect the savings required to return a balanced position, rather than as a result of an effective workforce plan. In our view, the Financial Forecast Return does not provide a robust medium term financial plan. The College urgently needs to develop effective medium term financial planning. This should be supported by scenario planning and ongoing monitoring.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Actions</p> <p>Develop alternative scenarios, modelling and fiscal/ budget assumptions to more accurately forecast and monitor future financial impacts</p> <p>Undertake CMT and Board Development sessions on the creation of the FFR for 2021-26</p> <p>Responsible officer: HoF</p> <p>Implementation date: May - September 2020</p>	<p>The Board has considered the FFR, along with options to deliver a balanced adjusted operating position in the medium term. We do consider that there is scope for the College to develop their own medium term financial plan out with the FFR process.</p> <p>Our assessment: In progress</p>
7	<p>The College has disclosed a number of significant weaknesses in procurement within its Governance Statement, including lack of competitive tenders for material contracts.</p> <p>The College must ensure that procurement weaknesses are addressed as a matter of urgency.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>SMT identified a weakness in this area and as a result took a number of corrective actions to ensure that appropriate systems and processes were addressed and that policies and procedures were up to date and communicated effectively to staff.</p> <p>SMT acknowledges the 2 areas of non compliance which were already in process of being addressed prior to the external audit being undertaken. These were a contract which is broader than a tendered service relationship and which had been in place since 2004 and which is subject to a current retender process. Secondly, a contract that required reporting to RSB which was undertaken retrospectively was non-compliant. This contract was funded through non-public funded sources</p> <p>SMT have already implemented a control system which includes:</p> <ul style="list-style-type: none"> ▶ APUC contract in place ▶ Revision of Procurement Strategy and Procedures ▶ Contracts register enabling forward planning of contract values, tenders and renewals ▶ Greater use of APUC Frameworks ▶ Implementing a consistent purchase order system ▶ Retendering of non-compliant contracts ▶ Discussions with RSB on rationales for exemptions to tender <p>Responsible officer: VP Implementation date: March - July 2020</p>	<p>We noted a number of improvements but some procurement actions within the audit action plan remain outstanding and are due for completion in 2022.</p> <p>Our assessment: In progress</p>

Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2020/21 audit cycle.

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

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