Edinburgh College

Annual Audit Report to the Board of Management and the Auditor General for Scotland year ending 31 July 2023

mazars

Contents

Our reports are prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 18 May 2022 through which the Accounts Commission has appointed us as external auditor of Edinburgh College (the College) for financial years 2022/23 to 2026/27. We undertake our audit in accordance with Further and Higher Education (Scotland) Act 1992; and our responsibilities as set out within Audit Scotland's Code of Audit Practice 2021.

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The Audit and Risk Assurance Committee
Edinburgh College
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18 December 2023

Dear Members,

Annual Audit Report – Year ending 31 July 2023

We are pleased to present our Annual Audit Report for the year ended 31 July 2023. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Annual Audit Plan which we presented to the Audit and Risk Assurance Committee on 24 May 2023. We have reviewed our Annual Audit Plan and concluded that the significant audit risks and other areas of management judgement documented therein remain appropriate.

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

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

Yours Faithfully,

Michael Speight

1) Executive summary

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of Edinburgh College (‘the College’) for the year ended 31 July 2023 and forms the basis for discussion at the Audit and Risk Assurance Committee meeting on 22 November 2023.
Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (‘the Code’) issued by Audit Scotland. We have the following conclusions:

Area	Conclusion
Opinion on the financial statements	We have issued an unqualified opinion, without modification, on the financial statements.
Opinion on regularity	We have issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.
Opinion on other requirements	We have issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely, that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	We have concluded as follows against wider scope dimensions: • The College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, given the overall sector financial position, we consider that the College’s ability to remain financially sustainable over the medium to longer term, without significant additional funding or cost cutting, is a concern; and • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management, which are appropriately reflected in their governance statement.

Status of our audit work

We have completed our work on the financial statements and wider scope work for the year ended 31 July 2023.

Internal control recommendations and misstatements

During the course of our audit, we have identified one internal control recommendation, which we have set out in Appendix 2. We have classified this as a level 2 recommendation, which is described as *“In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.”*

As this is the first year, we have completed the audit of Edinburgh College, we do not have any recommendations to follow up on from the prior year.

During our audit procedures we have identified one unadjusted misstatement which we have included within Appendix 3 and have not identified any adjusted misstatements. The total value of unadjusted misstatements identified was £23,000, extrapolated to £53,000.

Our audit approach

We provided details of our intended audit approach in our Annual Audit Plan on 24 May 2023. We have not made any changes to our audit approach since we presented our Annual Audit Plan.

Adding value through the audit

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

Materiality

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

We set materiality at the planning stage of the audit at £818,370 using a benchmark (2%) of previous years' total revenue. Our final assessment of materiality, based on the draft financial statements is £828,232 using the same benchmark.

Level of materiality	Initial Threshold £'000	Final Threshold £'000
Overall materiality	1,259	1,274
Performance materiality	818	828
Trivial threshold for errors to be reported to the Audit and Risk Assurance Committee	37	38

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

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

- will make reasonable economic decisions on the basis of the information in the financial statements.

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

Performance Materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherent risk level assessed, with a reduction of 10% applied for first year audit engagements. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 65% of overall materiality as performance materiality. This assessment has not changed during the audit process.

Misstatements

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

2) Audit of the financial statements

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

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Annual Audit Plan and Audit Progress Report;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 14 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although our report identified significant risks at the planning stage of the audit in our Annual Audit Plan, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks.

Description of significant risk	Our response and conclusion
Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	**How we addressed this risk** We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements. • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. **Audit conclusion** Satisfactory assurance has been gained in respect of the presumed risk of management override of controls. We have no matters to report.
Revenue recognition There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of	**How we addressed this risk** We addressed this risk through performing audit work over: • The design and implementation of controls management has in place to ensure income is recognised in the correct period;

Description of significant risk	Our response and conclusion
financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding. This risk applies only to the non-grant income generated by the College. The risk has been rebutted for The College's grant income, given the highly regulated nature which therefore results in low inherent risk of error or fraud in the recognition of this income.	• Cash receipts around year end to ensure they have been recognised in the appropriate year; • The judgements made by management in determining when non-grant income is recognised; and • For major grant income, obtaining counterparty confirmation. **Audit conclusion** Satisfactory assurance has been gained in respect of the presumed risk of error in revenue recognition. We have noted an extrapolated error above the clearly trivial threshold as documented in section two of this report, however we have gained assurance that this does not present a risk of material misstatement of the financial statements due to the value of invoiced income in which the error has been noted being below our materiality for the period we have assessed the income cut off risk to apply to.
Expenditure recognition For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations. The pressure to manage expenditure to ensure that budgeted outcomes are achieved increases the risk surrounding fraudulent reporting of expenditure.	**How we addressed this risk** We have undertaken a range of audit procedures including: • Performing audit work over the design and implementation of controls management has in place; • Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the appropriate year; • Testing material year end payables, accruals and provisions; and • Reviewing judgements about whether the criteria for recognising provisions are satisfied. **Audit conclusion** Satisfactory assurance has been obtained in respect of the risk of error in expenditure recognition. We have no matters to report.
Defined benefit pension scheme assets There is a significant asset value used in calculating the Lothian Pension Fund (LPF) position as at 31st July 2023 and due to the nature of the pension scheme there is significant complexity in identifying the College's share of the assets.	**How we addressed this risk** We addressed this risk by obtaining confirmation from the pension fund of the total value submitted to the actuary and details of how the College's share of assets has been calculated. We then reviewed this confirmation and consider if the information provided is sufficient and challenge any inconsistencies noted.

Description of significant risk	Our response and conclusion
The complexity is created by factors such as: • The types of assets held by the pension scheme and their valuation bases; and • The calculation of the College's share of the overall scheme assets requiring the rolling forward of quarter end valuations.	**Audit conclusion** Satisfactory assurance has been gained in respect of the valuation risk of defined benefit pension scheme assets. We have no matters to report.

Key Areas of Management Judgement

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

Description of management judgement	Our response and conclusion
Valuation of land and buildings The financial statements contain material locations for land and buildings. Land and buildings will receive an interim indexation as at 31 July 2023. It has been noted that this indexation gain was material to the financial statements, being approximately £4.5m. Valuations have been performed by an expert valuer. The indexation, performed as at 31 July 2023, valued the College land and buildings at £172.2m.	**How we addressed this risk** We have undertaken a range of substantive procedures including: • Examining the professional qualifications of the valuer; • Challenge and substantiate the assumptions and the appropriateness of the date of the valuation used by management's valuer in completing the valuations; • Considering the impact of any uncertainty arising from the professional valuation of college land and buildings, assessing against third party benchmark information where appropriate. • Ensuring that valuations and impairments have been completed on the correct basis for each item and that movements are in line with expectation; and • Assessing whether the report produced by the valuer has been correctly reflected in the accounts. **Audit conclusion** Satisfactory assurance has been gained in respect of the valuation risk in relation to land and buildings. We have no matters to report.

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

Qualitative aspects of the entity's accounting practices.

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2022/23 and were appropriately tailored to the College's circumstances.

Draft financial statements and draft annual report were received from the College on 26 September 2023, prior to the start of audit fieldwork. Both draft financial statements and draft annual report were of a good quality.

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

Significant matters discussed with management.

At 31 July 2023 and 31 July 2022 the College's share of the Lothian Pension Fund was recorded as a notional surplus as the value of the defined benefit obligation was less than the fair value of the plan assets at that date, meaning that the pension liability usually recorded is now a pension asset. We have had discussions with management as to the most appropriate accounting treatment and disclosure of the pension asset.

Management have amended the surplus recognised at 31 July 2022 to reflect the existence of an actuarially asset ceiling cap, resulting in a prior year adjustment. In 2023 the asset has been capped at £nil and in 2022 at £14m and has been calculated on a consistent basis.

Significant difficulties during the audit

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

3) Wider scope

Our approach to Wider Scope work

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

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

In recognition that audit work should be risk based and proportionate to the nature and size of the audited body, the Code allows auditors to determine whether application of the full wider scope work is appropriate in smaller bodies. At the planning stage, we considered that the audit of Edinburgh College should not be carried out under the small body provisions of the Code.

We have reached this conclusion through our assessment of:

- the relative size of the College;
- the relative simplicity of the College's functions;
- the College's risk profile; and
- the results of our full review of wider scope dimensions in 2022/23 and audit work performed in subsequent years that did not indicate any areas of higher risk.

In line with the Code requirements, our work has therefore focused on financial management, financial sustainability, governance and transparency and value for money. This is concluded on in the following pages.

At the completion stage we have not noted any changes to our conclusion drawn at the planning stage of the audit.

Dimension	Description	Our approach
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	We have considered: • the monitoring of the effectiveness of internal control arrangements; • whether the College's budgetary control system is timely and accurate; and • whether and how the College has assessed their financial capacity and skills.

Dimension	Description	Our approach
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the college's arrangements for financial planning and affordable and sustainable service delivery.	We have considered: • the financial planning system in place for short-, medium- and long-term periods; • the adequacy and accuracy of financial reporting arrangements; and • the reasonableness of affordability assumptions made in financial planning.
Governance and transparency	Governance and transparency cover the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review.	We have considered: • the effectiveness of internal control arrangements; • the appropriateness of disclosures made in the Governance Statement; and • whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met.
Value for money	Value for money concerns using resources effectively and continually improving services.	We have considered: • the College's evidence of providing value for money; and • the focus on improving value for money and the pace of change at the College.

Financial management

Dimension

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

Our conclusion

Edinburgh College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, given the overall sector financial position, we consider that the College's ability to remain financially sustainable over the medium to longer term, without significant additional funding or cost cutting, is a cause for concern.

Financial Performance

The College is required to report financial performance under the HE/FE SORP, resulting in the reported deficit of £3,003k in the Statement of Comprehensive Income. However, as a central government body, the College is also required under the Accounts Direction from the Scottish Funding Council to report financial performance as an 'adjusted operating position'. We set out these required positions below:

Area	2022-23 £000	2021-22 £000
Operating income	73,661	71,971
Staff costs	(53,482)	(59,126)
Operating expenditure	(23,182)	(20,926)
Operating Deficit for the year (FE/HE SORP basis)	**(3,003)**	**(8,081)**

Operating income has increased by £1.7m in the year. This is mainly because of an increase of £900k in service cost income related to the FRS 102 pension calculation, and £539k increase in other grant income.

The SFC main grant fall is primarily due to a reduction in the student activity during the year. In both 2022-23 and 2021-22 the College was able to obtain the full available core grant by virtue of achieving the requisite level of student credits.

Other income has improved this year with one of the main factors being an increase in catering income due to the campus being fully operational in the year following on from the Covid-19 pandemic.

Staff costs decreases primarily due to the £5.3m reduction in the actuarially calculated pension costs, as well as a fall in staff numbers offsetting accrued pay rises in the year.

Operating expenditure has increased by £2.3m from the previous year. This is mainly due to the utility costs rising by £595k combined with inflation impacting on other costs throughout the year. There was a £430k increase in depreciation costs, which was offset by a £689k decrease in interest and other finance expenses due to the pension scheme generating interest income in the year. The SFC acknowledges that having an unfunded voluntary severance and cost of living pay awards will incur additional expenditure which will affect the College's adjusted operating position.

While showing an accounting deficit, we highlight that:

- The College met its student credit target resulting in the College retaining 100% of the initially provided main grant; and
- The College achieved its financial targets in line with its plan.

Adjusted operating position

The table above sets out the financial position in accordance with the SORP requirements. The table below reflects the ‘adjusted operating position’ as required by the Accounts Direction set by the SFC. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions and those that do not have an immediate cash impact on the College. Full details of the adjustments included are shown under the Adjusted Operating Position header on page 21 of the financial statements.

Area	**2022-23 £000**	**2021-22 £000**
Deficit before other gains and losses	(3,003)	(8,081)
Add back: - Depreciation (net of deferred capital grant release) on both governments funded and privately funded assets	3,271	2,834
- Pension adjustment – Net service cost (FRS 102)	1,418	6,709
- Pension adjustment – Net interest (income) /cost	(849)	750
- Non-cash pension adjustment – Early retirement provision year-end valuation charged to SOCI	(161)	(489)
- Non-cash pension adjustment – Early retirement provision interest	102	58
- Non-cash provision adjustment	-	(1,103)
Deduct: - CBP allocated to loan repayments and other capital items	(841)	(812)
Adjusted operating surplus	**(63)**	**(134)**

It is considered that the College is operating sustainably within its funding allocation.

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements in place at the College. Our work consisted of a review of budget monitoring reports and committee papers along with attendance at committees. Overall, we consider that the Board of Management obtains regular and timely financial information that reflects the actual financial position.

We note that budget reports are produced on a timely basis and considered by the appropriate committee throughout the year. Budget reports and forecasts were appropriately updated based on prudent assumptions, there was considered to be no unreasonable movements throughout the quarterly forecasts and budgets considering the ongoing impact of the recovery from the Covid-19 pandemic.

The Planning & Resources Committee considers the management accounting pack regularly, reporting to the Board of Management. Minutes of the meetings document the level of challenge to the financial performance.

Internal controls

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

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

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

Prevention and detection of fraud and irregularity

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

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

Financial sustainability

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

Our conclusion
Edinburgh College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. We considered the College's ability to remain financially sustainable over the medium to longer term and we have concluded that there are no issues with the financial sustainability.

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

Description of significant risk	Our response and conclusion
Financial sustainability During 2022/23, the College prepared a three-year forecast which highlights a future funding gap. The College has taken steps to identify areas where savings can be made to mitigate the funding gap in the FFR.	**How we addressed this risk** We have addressed the risk by: • Reviewing the forecast financial position in the three-year financial plans submitted to SFC; • Considering alternative plans being considered by the College to ensure a balanced budget is achieved; and • Reviewing the financial reporting arrangements in place at the College. **Audit conclusion** During 2021/22, the College has prepared a five-year forecast which highlights a future funding gap. The College has taken steps to identify areas where savings can be made to mitigate the funding gap in the FFR.

Financial Planning
Edinburgh College provides three-to-five-year forecasts to the SFC annually or as required. The College believes that the SFC will provide the liquidity funding required and therefore it is appropriate to prepare the accounts using a going concern basis.

This year, the College has produced a three-year Financial Forecast Return (FFR) to the SFC in line with current SFC guidance.

Area	Forecast 2023-24 £000	Forecast 2024-25 £000	Forecast 2025-26 £000
Adjusted operating deficit	0	0	0

Through the FFR process and other financial reporting throughout the year, the College and its Board of Management have a clear view of the financial challenges and long-term risks faced. FFR planning assumptions, as advised by the SFC, have been considered fully before use.

The FFR approved by the Board in September 2022 projected a deficit of £986k for the 2022-23 year. The FFR for this period includes providing for the cost of living pay awards in line with public sector pay policy, and for the expected cost of implementing the support staff and middle managers job evaluation (as the expectation is that this would be paid in 2023). The outcome of this remains uncertain, and if negotiations result in higher levels than expected, this would have a further negative impact on the budget for 2023-24.

Further detail on the College's three-year forecast is included in the table below:

Area	Forecast 2023-24 £000	Forecast 2024-25 £000	Forecast 2025-26 £000
Total Income	70,187	70,087	69,987
Staff costs	(50,172)	(50,285)	(50,228)
Total other expenditure	(22,370)	(22,106)	(22,009)
Operating deficit before other gains and losses	**(2,355)**	**(2,304)**	**(2,250)**
Add back: Depreciation – net of deferred capital grant	3,249	3,230	3,210
Less: Cash based priorities allocated to loan repayments	(894)	(926)	(960)
Adjusted operating deficit	**0**	**0**	**0**

In response to the late announcement by the SFC provided updated guidance on the 2% credit tolerance, the Finance team updated the adjusted operating position and wrote to the SFC asking to confirm the revised position. The SFC confirmed the revised position as being appropriate and therefore the Finance team processed the adjustment. The Board will be informed at the next meeting, due to take place in December.

The FFR shows a £0 adjusted operating surplus throughout this timeframe. These results are based on the assumptions provided by the SFC and are not deemed to be a fixed forecast or strategic plan. The College is actively considering a range of options in relation to the coming years, and will continue to work to refine the income and costs reflected in their financial plans to better reflect actual expectations.

Asset Management and Estates Strategy

In 2018-19 the College produced its 5-year Estates Strategic Plan which captured the estates developments required to deliver on curriculum plans and give students the best possible learning experience. The Estates Strategy was refreshed in 2022-23 and is designed to complement the College strategic and operational plans and its key aim is to ensure maintenance of high-quality fit for purpose facilities, minimum environmental impact and operational sustainability. The Board of Management, through the Planning & Resources Committee, will monitor the strategy. The Strategy is already well under way, with major changes made in 2022-23 and a new strategy under development for the future.

Estates survey

During the year, Edinburgh College have completed multiple upgrades and projects, including;

- Replacing the air conditioning units in the theatre at the Granton campus,
- Completing phase 1 of a new boiler installation at the Milton Road Club building,
- General upgrades to LED Lighting, Flooring works, roofing and roller shutters,
- Improved CCTV systems,
- Upgraded fire exits, and
- Purchase of new laptops.

We consider that appropriate attention is given to the estate and assets and their continued development and improvement, and that their maintenance is factored into long term plans and discussions.

Governance and transparency

Dimension

The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review.

Our conclusion

Edinburgh College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management, which are appropriately reflected in their governance statement.

Governance arrangements

Our work in this area has considered the overall governance arrangements in place at the College, reviewed the financial and performance reporting to the Board of Management, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also attended Audit and Risk Assurance Committees during the year.

Financial papers submitted to committees are relevant and timely. Each paper has a summary setting out the purpose of the paper and the action required by the members. Minutes are understandable and contain detail of discussions and rationale for decision making.

At 31 July 2023, the Board consisted of 18 members, 11 female (including the Principal) and 7 male. In the current year the Board has maintained a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Act 2018.

The College do aim to have equality and diversity in their board representation, and this is considered actively at each round of recruitment alongside the strengths and skills required for the role to ensure the Board has sufficiently qualified and skilled members. It can be difficult to ensure an equal gender split of members depending on the applications for the vacancies the Board receive at the time of vacancy.

The key committees' membership comprises of, and are chaired by Board members, with each also containing the Principal, with the exception of the Audit and Risk Assurance Committee. In addition, the Chair of the Board is also not permitted to be a member of the Audit and Risk Assurance Committee. Appropriate College officers attend committees and present reports as required.

During the year to 31 July 2023, Board and Committee meetings were held in person with the option to join remotely if required, as the College embraced a hybrid working environment.

Governance Statement

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

The governance statement confirms the College's compliance with the 2022 Code of Good Governance for Scotland's Colleges.

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

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by BDO. Internal

Audit have attended Audit Committees throughout the year and have produced 6 reports to support the overall Annual Internal Audit Opinion 2 of which were limited opinions.

The opinion given by internal audit was: ‘In ‘In our view, based on the reviews undertaken during the period, and in the context of materiality:

- In four of the six audits performed the risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements. Based on our verification reviews and sample testing, the risk management, control and governance arrangements in these four areas were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control, value for money and governance objectives were achieved for the period under review.
- However, our cyber security review and fraud strategy reviews identified that further work was required to ensure that there are robust controls in place. Our cyber security review identified issues with account management, across the College different teams have different account management technology and processes and we also found that there is not a policy in place for vulnerability management.
- Our fraud review identified that the College has not completed a fraud risk assessment and that there is no counter fraud training for staff. As such, we are not able to provide reasonable assurance based on our verification review and sample testing, that risk management, control and governance arrangements were designed and operating with sufficient effectiveness in these areas to provide reasonable assurance that the related risk management, control, value for money and governance objectives were achieved for the period under review.’

Transparency

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

Value for Money

Dimension

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

Our conclusion

Edinburgh College has an effective performance management framework in place that supports progress towards the achievement of value for money.

<u>Performance management</u>

The College delivered its Regional Outcome Agreement (ROA) target credits. The College achieved a small adjusted operating deficit in the year. There is close monitoring of the delivery of the ROA and financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget to be appropriately managed. Through this management of the 2022/23 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected given the circumstances of the year.

<u>Regularity</u>

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

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

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

4) Our fees

Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Annual Audit Plan, presented to the Audit and Risk Assurance Committee on 24 May 2023. Having completed our work for the 2022-23 financial year, we can confirm that our final fees are as follows:

Service	2022/23 proposed fee £	2022/23 final fee £
Auditor remuneration	52,720	52,720
Pooled costs	(7,730)	(7,730)
Audit support	1,380	1,380
Sectoral cap adjustment	3,180	3,180
Total fee	**49,530**	**49,530**

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

Appendix 1 – Independence

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

We can confirm that no new threats to independence have been identified since issuing the

Annual Audit Plan and therefore we remain independent.

Appendix 2 – Internal Control Recommendations

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

Deficiencies in internal control - Level 2

Description of deficiency and potential effects	Our recommendation and management response
Description of deficiency During our audit of the cut off of post year end income, we identified samples where the cut off was incorrect due to income not being accrued correctly as at 31 July 2023. This was as a result of either human error or invoices below £5,000 not being reviewed for potential accrued income. **Potential effects** This can lead to an understatement of the year end income within the financial statements. We have also identified an unadjusted misstatement which we have included in Appendix 3.	**Recommendation** We recommend that all income is reviewed and assessed on whether it needs to be accrued at the year end. **Management response** Threshold for accrued income was applied in year due to staffing changes in the team. This has been corrected and £5k threshold will not be applied going forward.

Appendix 3 – Schedule of Unadjusted Misstatements

Unadjusted misstatements

Details of adjustment	SOCI	SOCI	Balance Sheet	Balance Sheet
	Dr £'000	**Cr £'000**	**Dr £'000**	**Cr £'000**
DR Accrued Income (Actual)			8	
CR Income (Actual)		(8)		
DR Accrued Income (Extrapolated)			10	
CR Income (Extrapolated)		(10)		
Being the extrapolated error identified on our testing of income cut off relating to invoices that should have been accrued for at the year-end that were missed due to being below the £5,000 limit for review. The actual error identified was £8,000 and a further £10,000 when the sampled error rate is applied to the untested portion of the population.				
DR Accrued Income (Actual)			15	
CR Income (Actual)		(15)		
DR Accrued Income (Extrapolated)			20	
CR Income (Extrapolated)		(20)		
Being the extrapolated error identified on our testing of income cut off relating to invoices that should have been accrued for at the year end that were missed due to human error. The actual error identified was £15,000 and a further £20,000 when the sampled error rate is applied to the untested portion of the population.				
Total Unadjusted Misstatements	**0**	**(53)**	**0**	**53**

Contacts

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