



**New College Lanarkshire Consolidated Regional Accounts
Annual audit report to the Board of Management
and the Auditor General for Scotland**

For the year ended 31 July 2017



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This report has been prepared in accordance with our responsibilities as appointed auditors as set out in Audit Scotland’s *Code of Audit Practice* (‘the Code’). Reports and letters prepared by appointed auditors and addressed to the College are prepared for the sole use of the College and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Executive summary

Purpose of this report

The Lanarkshire Colleges Order 2014 designates the Board of New College Lanarkshire as the Regional Strategic Body (RSB) for Lanarkshire – known as the Lanarkshire Board. In August 2016, the Scottish Funding Council awarded fully fundable status to New College Lanarkshire for the Region. As a consequence of this, and determinations of accounting standards, the Lanarkshire Board have determined that consolidated regional accounts should be prepared.

This annual audit report summarises the work we have undertaken as the auditor for The Lanarkshire Board, and our audit of the New College Lanarkshire Regional Consolidated Financial Statements for the year ended 31 July 2017. Mazars LLP are the appointed auditors to both New College Lanarkshire and South Lanarkshire College.

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 in 2016. The detailed sections of this report provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of work	Summary
Financial statements opinion	<p>Our opinion on the financial statements was issued on 31 January following the Lanarkshire Board's approval of the annual report and accounts on 30 January 2018.</p> <p>We reported an unqualified opinion.</p>
Opinions on other matters	<p>We are also required to give opinions on other matters. We reported an unqualified opinion on:</p> <ul style="list-style-type: none">• The regularity of income and expenditure• The remuneration and staff report, performance report and governance statement.

Area of work	Summary
<p>Wider Scope work</p> <p><i>Financial Management</i></p> <p><i>Financial Sustainability</i></p> <p><i>Governance and Transparency</i></p> <p><i>Value for Money</i></p>	<p>We are required by the Code to form conclusions on four wider scope dimensions. Our conclusions on each dimension are summarised below:</p> <ul style="list-style-type: none"> • The Lanarkshire Board has effective arrangements, including budgetary control, that help Board members scrutinise finances • The Lanarkshire Board has adequate financial planning arrangements in place, however, significant financial sustainability concerns have been identified at New College Lanarkshire. • The Lanarkshire Board has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board. A review of regional financial governance is ongoing to identify potential improvements in the governance framework. • The Lanarkshire Board has an effective performance management framework in place that supports progress towards the achievement of value for money.
<p>Independence</p>	<p>We consider any actual, potential or perceived threats to our independence as part of our ongoing risk assessment. We can confirm that no threats to independence have been identified since the issue of our Audit Strategy Memorandum reports to New College Lanarkshire and South Lanarkshire College in May 2017, and therefore we remain independent.</p>

We would like to take this opportunity to thank all management and staff for their assistance and co-operation during our audit.

Financial statements

Financial statements opinion	Unqualified
Regularity opinion	Unqualified
Opinion on other prescribed matters	Unqualified

The financial statements

The Lanarkshire Colleges Order 2014 designates the Board of New College Lanarkshire as the Regional Strategic Body (RSB) for Lanarkshire – known as the Lanarkshire Board, and assigns South Lanarkshire College to New College Lanarkshire. In August 2016, the Scottish Funding Council (SFC) awarded fully fundable status to New College Lanarkshire for the Region.

New College Lanarkshire and South Lanarkshire College as individual entities, both received Accounts Directions from the SFC for the year ended 31 July 2017 in June 2017. The Lanarkshire Board, as RSB, received correspondence from the SFC on 26 July 2017 noting that *'it would appear likely that consolidated financial statements may require to be prepared by New College Lanarkshire'*.

As a consequence of this, and consideration of accounting standards alongside the powers that RSB has under the Post-16 Education (Scotland) Act 2013, a decision was taken that consolidated financial statements should be prepared. However, given the late nature of communications with the SFC, it was decided that for 2016/17 only, two sets of financial statements would be prepared by New College Lanarkshire. The first, New College Lanarkshire financial statements, including their 100% owned subsidiary, Amcol Ltd, were prepared and audited, being certified on 15 December 2017. The second, New College Lanarkshire consolidated regional financial statements are the subject of this report. A deadline extension was agreed with the SFC for their submission to 31 January 2018.

New College Lanarkshire is a registered charity, the Lanarkshire Board is not. Therefore, in order to meet requirements set by the Scottish charity regulator, OSCR, the regional accounts are named as New College Lanarkshire regional financial statements. For the purpose of clarity in this report, the regional accounts will be referred to as the consolidated financial statements. References to New College Lanarkshire, unless otherwise stated, are to the college as a single entity.

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Region and whether they give a true and fair view of the Region's financial position as at 31 July 2017 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by Audit Scotland, and International Standards on Auditing for the UK and Ireland (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Region's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and

- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for

audit testing (performance materiality), which is also dependent on the level of inherent risk assessed in the area being audited which may be due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the consolidated financial statements for the year ended 31 July 2017. We have also taken cognisance of the materiality levels set for each entity in the consolidated financial statements and have set component materiality levels that are not higher than the overall financial statement materiality.

Financial statement materiality	£1,441,000
Performance materiality	£1,153,000
Trivial threshold	£43,000

Our response to significant risks

As part of our planning procedures we considered whether there were risks of material misstatement in the consolidated financial statements that required special audit consideration, and risks that were not identified as part of the audit planning for the component entities. We reported significant risks identified at the planning stage to the Audit Committees of both colleges within our Audit Strategy Memorandum reports and provided details of how we responded to those risks in our Audit Completion Report. We have not identified any further significant risks of material misstatement to the consolidated financial statements. The table below outlines the significant risks we have identified, the work we carried out on those risks and our conclusions.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk through performing audit work in the component audits over:</p> <ul style="list-style-type: none"> • accounting estimates impacting 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 <p>We also considered the estimates and judgements made in the preparation of the consolidated accounts.</p>	<p>Satisfactory assurance has been gained over the presumed risk of management override. We have no matters to report.</p>
<p>Revenue recognition</p> <p>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 financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding.</p>	<p>We addressed this risk through performing audit work in the component audits over:</p> <ul style="list-style-type: none"> • the design and implementation of controls management has in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they have been recognised in the right year; • the judgements made by management in determining when grant income is recognised; and • for major grant income, obtaining counterparty confirmation. 	<p>Satisfactory assurance has been gained over the presumed risk of revenue recognition. We have no matters to report.</p>

Significant risk	How we addressed the risk	Audit conclusion
<p>Land and building valuations</p> <p>The consolidated financial statements record a significant value of land and buildings as part of the overall holding of fixed assets. Land and buildings are held at a net book value of £126m as at 31 July 2017. Total fixed assets as at 31 July 2017 are £128m.</p> <p>In line with the requirements of the Government Financial Reporting Manual, both New College Lanarkshire and South Lanarkshire College have adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five year period. This meets the requirement of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value.</p> <p>The Region is also required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date.</p> <p>Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements.</p>	<p>We undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"> • review and evaluation of the external valuer’s report as at 31 July 2015; • review of the reconciliation between the individual college asset registers and general ledger; and • considered the policy applied on impairment reviews for buildings across the region. 	<p>Our audit work has provided satisfactory assurance over the valuation of land and buildings held as fixed assets in the accounts and we have nothing to report.</p>

Areas of audit focus

As part of our continuous planning processes, we carry out work to identify matters that will have a direct impact on the financial statements, but are not likely to represent a risk of material misstatement. The work we carried out in relation to these areas of audit focus is outlined below.

Audit focus	Work undertaken	Conclusion
<p>Valuation of pension liabilities - Region</p> <p>Both colleges makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the Colleges share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme.</p> <p>The Colleges share of the SPF's underlying assets and liabilities is identifiable and a net liability is recognised in the accounts. As at 31 July 2017 the consolidated accounts show a net liability of £16.852m, an increase of £1.117m in 12 months.</p> <p>Given the scale of the liability recognised in the accounts, a misstatement in the reported position could be material to the financial statements</p>	<p>We considered arrangements in place at both colleges, including the existence of any relevant controls, for making estimates in relation to pension entries within the financial statements. We also considered the reasonableness of the actuary's assumptions used in providing the both colleges with information in the financial statements through the use of our internal experts.</p>	<p>Our audit work has provided satisfactory assurance over the valuation of the pension liability reported in the accounts and the actuarial assumptions used to calculate the liability. We have no matters to report.</p>

Internal control recommendations

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 identified no recommendations for the improvement of internal controls at New College Lanarkshire, during our audit.

One minor recommendation was raised and agreed for the improvement of internal controls at South Lanarkshire College, during our audit. We do not consider this finding significant to the consolidated financial statements and have therefore not re-raised the finding in this report.

We have no findings to raise following our work on the consolidation process and audit.

Audit differences

There were no material adjustments to the draft financial statements arising from our audit. We discussed and agreed a number of disclosure and presentational adjustments that have been reflected in the final annual report and accounts.

Qualitative aspects of accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the consolidated accounts, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	We have reviewed accounting policies and disclosures in the consolidated accounts and found these to be in line with the requirements of the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2016/17.
Quality of the draft financial statements	We received a draft version of the accounts from management on 21 December 2017 in advance of Christmas leave and our audit fieldwork. A draft version of the annual report and accounts was received, as agreed on 11 January 2018. The draft annual report and accounts were of a good quality and we found few errors in the draft provided to us
Quality of supporting working papers	Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers were good and staff were responsive to our requests when we were on-site.

Significant matters discussed with management

During the audit of New College Lanarkshire, given the current and predicted future financial position of the College, we discussed the reasonableness of the Going Concern assumption with senior officers. Advance funding will be required during 2017/18 with the College forecasting cashflow issues, resulting in significant overdrawn cash balances from March to July 2018. We therefore sought assurance from the Scottish Funding Council, as the College's primary funder, that core funding would continue to be advanced, as required, for a period of at least 12 months from the approval of the financial statements. The response received from the SFC recognises the scale of change that the College needs to make, as outlined in the College Business Scenario Plan, to return to financial balance. It also recognises that the College may require further financial support, beyond what is covered in current SFC grants to achieve this. The SFC commit to working with the College to 'identify and consider any such requirements for the provision of additional grant funding necessary to ensure that it remains a viable organisation.' This will, of course, be subject to the SFC having sufficient resource within its own budget.

On 27 November 2017, the Scottish Funding Council offered the College additional strategic funding for the 2017/18 financial year. In light of this additional funding, the commitment of the SFC to working with the College, and our review of the College's Business Scenario Plan, we consider that preparation of the New College Lanarkshire financial statements, and therefore the consolidated financial statements, on a Going Concern basis, is appropriate.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Financial management

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

The Lanarkshire Board has effective arrangements, including budgetary control, that help Board members scrutinise finances

Financial performance

FE/HE SORP Accounting	2016/17 £'000	2015/16 £'000
Operating Income	69,925	69,460
Staff Costs	(51,233)	(48,990)
Operating Expenditure	(20,798)	(21,825)
Operating Deficit for year (FE/HE SORP basis)	(2,106)	(1,355)
Operating Deficit as % of Operating Income	3.1%	1.9%

The above table shows the financial performance of the Region for the last two academic years, as reported under the FE/HE SORP. Although a deficit was shown over both years:

- There were no significant changes that were not fully documented and explained to the reported position during the year; and
- The student credit target was met confirming the level of funding in the financial statements.

New College Lanarkshire received £1.9m of advance funding from the SFC in July 2017 to assist with in-year financial demands. This has been treated as deferred income as it has been taken from the college's 2017/18 funding. This financial position was previously identified by the College and discussed with SFC in advance of need.

Since Scotland's colleges were reclassified as Government bodies, they also have to report on a central government accounting basis. The purpose of this is to reflect additional budget received by the College to fund depreciation, which is not recognised under FE/HE SORP requirements. This is shown below:

Central Government Accounting	2016/17 £'000	2015/16 £'000
Operating Deficit for year (FE/HE SORP basis)	(2,106)	(1,355)
Add back: Non-cash allocation for depreciation (net of deferred capital grant)	820	979
Non cash pension adjustments	1,520	1,074
Deduct: Non-Government capital grants	(893)	(2,468)
Revenue funding – loan repayments (from cash budget for priorities)	(295)	(332)
Revenue funding – loan repayments (from other revenue)	(129)	(51)
Operating Deficit on Central Government accounting basis	(1,033)	(2,215)
Operating Deficit as % of Operating Income	1.5%	3.2%

As can be identified above, while the operating deficit has reduced year on year under the central government accounting basis, the consolidated accounts report a significant deficit, which stems from the deficit recorded by New College Lanarkshire. The region is currently operating outwith its funding package. Discussions are ongoing with the SFC regarding the financial position and working towards attaining financial balance. (Further details are included in the Financial Sustainability section of this report.)

Budgetary process

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

Finance officers produce monthly management accounts in a regular time frame in accordance with their established processes following the month end. Monthly management reports have reported a consistent position from both Colleges throughout the year. The financial position of South Lanarkshire College is reported regularly to the Lanarkshire Board, through provision of approved minutes and reports and written updates.

Monitoring reports are included on the agenda of every Finance committee. A review of these minutes and onwards to the Board demonstrated effective challenge of the financial position by members. The Finance Committee is attended by representatives from SLC, generally the Principal, Head of Finance and Financial Accountant. At each meeting minutes and papers from the SLC Finance Committee are presented, following their approval by the SLC Board. The SLC representatives always leave the meeting following the SLC discussion, at which point New College Lanarkshire is discussed. There were no finance papers produced on a regional basis during the year.

During the year a Regional Finance Working Group was established, with membership from both Colleges. It was principally charged with looking at processes around regional funding and the requirements of the financial memorandum. It reports into the Finance Committee and the Accounting

Officer of the Lanarkshire Board. No significant findings, or inconsistencies in processes have been identified to date.

Given the Board reporting timetables of each College during 2016/17, this meant that there were sometimes significant delays in formal reporting to the Region – for example the Finance Committee on 19 September, received minutes from the SLC Finance Committee of 30 May. In such circumstances, this is covered with a written update report on the most recent meeting. We would encourage the practice of verbal updates, or short, albeit unapproved, notes of SLC Board Committees to ensure the regional financial position is current. In the long term, each College may wish to review their Calendar of Board activities to increase the length of time between SLC and regional meetings, to allow for approved and current updates to be provided.

Overall, we consider that the Board of Management obtains financial information that reflects the actual financial position.

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.

Work carried out by internal audit on corporate governance arrangements concluded that adequate and effective controls were in place to comply with the additional corporate governance requirements documented within the financial memorandum.

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 Lanarkshire Board. Internal audit concluded that: *'New College Lanarkshire as a region did have adequate and effective risk management, control and governance processes to manage its achievement of the Region's objectives at the time of our audit work. In*

our opinion, the Region has proper arrangements to promote and secure value for money”

We conclude that the processes and controls in place in the Region are operating effectively. We have identified no recommendations for the improvement of internal controls at the Region, during our audit.

Prevention and detection of fraud and irregularity

Management and the Audit Committee, as those charged with governance also have responsibilities in respect of fraud. They are responsible for

safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

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

Financial sustainability

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.

The Lanarkshire Board has adequate planning arrangements in place, however, significant financial sustainability concerns have been identified at New College Lanarkshire.

Financial planning

In its annual review of the FE sector, Audit Scotland's 'Scotland's Colleges 2017' recommended that Colleges should:

- *prepare longer-term financial plans, as we recommended last year, in order to support financial decision-making that takes account of both immediate and future cost pressures*
- *calculate the cost of harmonising staff pay, terms and conditions and include these in their financial plans*

Both colleges have prepared five year plans, as recommended by Audit Scotland. A formalised regional plan has not yet been prepared as New College Lanarkshire is working with the SFC on their five year business plan, following the requirement for advance funding in 2017/18.

Going concern issues were identified as part of the New College Lanarkshire audit. As a large proportion of the consolidated financial statements, we have also considered these issues when considering our opinion on going concern and our conclusion on financial sustainability. New College Lanarkshire requested £1.9m of advance funding from the SFC in the 2016/17 year to assist with in-year financial demands. This has been treated as deferred income as it has been taken from the College's 2017/18 core funding. Consequently, there are concerns that this will potentially lead to further funding difficulties at the end of 2017/18 that will increase the deficit level in the consolidated accounts.

Both colleges have completed a five year Financial Forecast Return (FFR), supported by a detailed annual budget, which has been submitted to the SFC. The FFR for New College Lanarkshire identifies a deficit in

each of the financial years from 2017/18 until 2020/21 before returning to a small surplus in 2021/22. In addition, the College is forecasting significant cashflow issues in 2017/18 with overdrawn cash balances being between the values of £1,775k and £2,796k from March to July 2018. The South Lanarkshire College FFR identifies a small operating surplus in each of the five years.

In recognition of the significant financial difficulties facing the College, they have produced alternative 5 year financial plans, with various different operating scenarios as part of their (BSP), that is envisaged will bring the College back to a surplus position in 2019/20. The BSP along with the 2017/18 Annual Budget was presented to the Finance Committee in September 2017 and recommended to the Board for consideration.

The BSP includes alternative 5 year financial plans, using various different operating scenarios and contains impact assessments of each scenario. Management have carried out a detailed risk assessment in the BSP, using a red, amber and green approach. This has been prepared by qualified and competent staff before being reviewed at Board level.

Each scenario in the BSP will require significant additional capital and revenue funding and has therefore been submitted to the SFC for approval. The College have been engaged in responding to queries and are now awaiting a formal response. An initial response to the BSP was the offer of £866k in the 2017/18 academic year from the SFC's Strategic Funds to initiate a Voluntary Redundancy Scheme, that will generate future cash savings. This was one of the scenarios proposed by the College in the BSP. As a result of this additional funding offer the College

will now look to formalise plans in further detail and are carrying out consultation with staff as appropriate, ensuring the funding requirements of the SFC are met.

Where appropriate during the year, there have been discussions with the SFC on a regional basis – for example in relation to the value of credits in Lanarkshire. This will continue going forward.

Asset management and estates strategy

Each college has a significant estate, leading to a value of £126m being recorded in the consolidated financial statements for land and buildings as

at 31 July 2017. New College Lanarkshire has six campuses spread across Lanarkshire and East Dunbartonshire. South Lanarkshire College operates from a single site in East Kilbride.

There is currently no regional Estates Strategy. A formalised plan exists for South Lanarkshire College, lasting to 2019. The New College Lanarkshire strategy is currently under review and is dependent on the outcome of discussions on the BSP as this may entail future capital works to update the infrastructure of the estate.

Governance and transparency

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

The Lanarkshire Board has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board. A review of regional financial governance is ongoing to identify potential improvements to the governance framework

Governance arrangements

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

The Board currently consists of 21 members, 11 male and 10 female, including the Chair. The College is aware of the objective of the Gender Representation on Public Boards (Scotland) Bill and will continue to seek to maintain gender balance on the Board by 2022.

The Lanarkshire Colleges Order requires that the Chair, Principal, two staff members and one student member of the South Lanarkshire College (SLC) Board are also members of the Lanarkshire Board. This arrangement has been in place for the full 2016/17 year. There is no requirement set in the Order for members of the Lanarkshire Board to become members of the SLC Board, or to attend Board meetings, but we note that the Chair of the Lanarkshire Board has been appointed as a member of the SLC Board. The Principal of New College Lanarkshire, as Accountable Officer of the Regional Strategic Body does not attend SLC

Board meetings. No representatives of the Lanarkshire Board, other than those employed by SLC, attend the committees of the SLC Board. In converse, there are SLC representatives attending all committees of the Lanarkshire Board. There could therefore be a perception of a lack of reciprocity in the governance arrangements across the region. Albeit, these arrangements stem from the requirements of the Lanarkshire Colleges Order.

The Finance Committee, with the support of the SFC, have instigated an independent review of regional financial governance arrangements. We encourage this review and the implementation of any resulting actions on a timely basis, to support the enhancement of regional governance as the regional board continues to evolve. We would also encourage that the review is extended to consider the need for reciprocity in the regional governance arrangements. We have raised a recommendation in Appendix 3 to this report

As is standard practice, the Board is reported to by Committees of the Board. Committees meet generally four times a year. The minutes of these meetings are considered as part of the agenda at the immediately following Board meeting. The key Committees are set up in line with the agreed terms of Reference for each. Appropriate College officers attend committees and present reports as required. Committee meeting agenda items are supported by detailed reports each with a cover sheet describing the role of the committee in respect of the report e.g. For Information, For Action etc. so that members are aware of their role.

The Lanarkshire Board Audit Committee is attended by representatives from SLC, generally the Principal, Head of Finance and Financial Accountant. At each meeting minutes and papers including the SLC risk register from the SLC Audit Committee are presented, following their approval by the SLC Board. A regional risk register has been developed and is reported to the Audit Committee alongside the SLC risk register.

As noted earlier in this report, the proximity of committee dates in each college meant that there were sometimes significant delays in formal reporting to the Region – for example the Audit Committee on 13 November, received minutes from the SLC Audit Committee of 28 August. In such circumstances, this is covered with a written update of the most recent meeting. We would encourage the practice of updates, short, albeit unapproved, notes of SLC Board Committees to ensure regional knowledge is current. In the long term, each College may wish to review their Calendar of Board activities to increase the length of time between SLC and regional meetings, to allow for approved and current updates to be provided.

The Curriculum and Student Affairs and Outcomes Committee is attended by the SLC Principal and Depute Principal along with the SLC student board member. The Resources and General Purposes Committee is attended by the SLC Principal or the Depute Principal.

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.

For the first time in 2016/17, 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 for New College Lanarkshire, and thus the region, is provided by Wylie and Bisset. The financial memorandum between the Lanarkshire Board and SLC requires that SLC has an effective internal audit service. This has been provided by Scott-Moncrieff. We note that there was discussion between the two sets of internal auditors to allow Wylie and Bisset to conclude on regional governance arrangements as at 31 July 2017.

Transparency

Transparency means that service users and the public have access to understandable information about how the Region is making decisions and using its resources.

There is a commitment to transparency, with the minutes and associated papers of committee meetings being made available on the website.

Value for money

Value for money concerns using resources effectively and continually improving services

The Lanarkshire Board has an effective performance management framework in place that supports progress towards the achievement of value for money

Performance management

The performance report identifies that the Region achieved its 2016/17 SFC core funded target by delivering 170,967 SFC funding Credits (the SFC's unit of measure for learner activity). In addition the College achieved European Social Fund (ESF) credits of 14,826, which was slightly over the target of 14,476. The Region provided places for 12,386 full-time Equivalent learners.

The majority of learners are those in full time further education, which accounts for 50% of learners in the region, with 61% of these learners completing their courses successfully. Overall achievement of the programme of study is achieved by 78.3% of all students.

Reviews of learning and teaching at colleges are performed by Education Scotland, in conjunction with the SFC. 2016/17 was considered a development year and there were no formal reviews during the reporting period. The most recent review took place in December 2017. This review indicated that both colleges are well led and have effective arrangements in place to enhance learner outcomes.

Regularity

As part of our audit of the consolidated financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial

statements. Regular expenditure and income is that which has been incurred / obtained in line with guidance issued by the Scottish Ministers and the terms and conditions of funding of the Scottish Funding Council.

The executive team at New College Lanarkshire considers all incoming correspondence relevant to its strategic management role from the Scottish Funding Council and other regulatory or advisory bodies, such as Audit Scotland to ensure it is appropriately aware of sector issues and developments and that it complies with the terms and conditions of funding. They regularly correspond with South Lanarkshire College on matters that affect both colleges and those that require a regional response.

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

We consider value for money and Best Value throughout our testing. Areas where we had a specific focus on value for money and Best Value are procurement and regularity.

We reviewed regularity of expenditure through our controls and substantive procedures and did not identify any exceptions.

During the year, with the assistance of APUC, a joint procurement was undertaken by both colleges for waste management services. The joint procurement allowed for economies of scale to be achieved and, ultimately a lower price for services. As appropriate, joint procurements will be pursued in future.

Our fees

Fees for work as the Region's appointed auditor

Having completed our work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee £	2016/17 final fee £
Auditor remuneration – audit of consolidated accounts	10,050	10,050
Auditor remuneration – audit of New College Lanarkshire accounts	34,860	34,860
Auditor remuneration – audit of South Lanarkshire College accounts	13,960	13,960
Total fee	58,870	58,870

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

Appendix 1 – Proposed Audit Opinion

Independent auditor’s report to the members of the Board of Management of the Lanarkshire Board, the Auditor General for Scotland and the Scottish Parliament

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of New College Lanarkshire and its group for the year ended 31 July 2017 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Reserves, Consolidated Balance Sheet, and Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college and its group and the affairs as at 31 July 2017 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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).

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the college and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the college and its group has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board of Management Responsibilities, the Board of Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Board of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the college and its group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual report and accounts

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK), our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on other prescribed matters

We are required by the Auditor General for Scotland to express an opinion on the following matters.

In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the college and its environment obtained in the course of the audit, we have not identified material misstatements in the Performance Report or Governance Statement.

We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

Mazars LLP

Appendix 2 – Proposed Letter of Representation

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the New College Lanarkshire consolidated regional accounts for the period ended 31st July 2017.

We acknowledge as members of the Board of Management our responsibility for ensuring:

- a) the financial statements are free of material misstatements including omissions;
- b) that the financial statements give a true and fair view of the state of affairs of the Lanarkshire Board (being the consolidated financial position of New College Lanarkshire and its subsidiary and South Lanarkshire College) as at 31st July 2017;
- c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records;
- d) all other records and related information, including minutes of all management meetings, have been made available to you;
- e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by SFC under the terms of the Further and Higher Education (Scotland) Act 1992; and
- f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

Wyllie and Bisset act as Internal Auditors to the Lanarkshire Board. All reports issued to the Lanarkshire Board and our responses to them have been made available to you

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

The Lanarkshire Board has no liabilities or contingent liabilities other than those disclosed in the accounts.

All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

The Lanarkshire Board has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

We confirm that we have disclosed to you all related party transactions relevant to the Lanarkshire Board and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.

The Lanarkshire Board has not contracted for any capital expenditure other than as disclosed in the accounts.

The Lanarkshire Board has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.

We are not aware of any irregularities, including fraud, involving existing management or employees of the Lanarkshire Board, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or Lanarkshire Board's Constitution and Articles of Government which might result in the Lanarkshire Board suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.

We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the Lanarkshire Board conducts its business.

We confirm that, in our opinion, the Lanarkshire Board is a going concern on the grounds that current sources of funding will be advanced as required and future additional funding will be obtained and will be adequate for the Lanarkshire Board's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the Lanarkshire Board ability to continue as a going concern need to be made in the financial statements.

We confirm that no journal adjustments have been processed in drafting the statutory accounts.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

..... Chair of the Lanarkshire Board

.....Accountable Officer, Regional Strategic Body

Appendix 3 – Audit recommendations

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

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms

of the urgency of required action. In summary, the matters arising fall into the following categories:

- **Priority 1 (high)**
There is potential for financial loss, damage to reputation or loss of information. Weaknesses may have implications for the achievement of strategic objectives and our recommendations should be considered immediately by management.
- **Priority 2 (medium)**
There is a need to strengthen internal controls or enhance efficiency. Our recommendations should be actioned in the near future.
- **Priority 3 (low)**
Internal controls should be strengthened where practicable and where there is a cost benefit from doing so.

Lanarkshire Board arrangements **Priority 2**

Audit finding	As set out in the Lanarkshire Colleges Order 2014, a number of South Lanarkshire College Board members are required to be members of the Lanarkshire Board. In addition, SLC representatives attend all of the committees of the Lanarkshire Board to present minutes and papers from the relevant South Lanarkshire College Board committees. The Chair of the Lanarkshire Board is a member of the South Lanarkshire College Board. The Finance Committee, with the support of the SFC, have instigated an independent review of regional financial arrangements.
Potential effects	The Accountable Officer for the RSB requires assurance over the arrangements in place across the region. As the RSB continues to evolve and develop, there is a risk that governance arrangements in place become, or are perceived to be less effective, reducing the assurance available to the Accountable Officer.
Recommendation	We recommend that the Lanarkshire Board consider the findings of the regional financial review, in order to ensure that as the regional board continues to evolve, the governance arrangements support the structure of the region and provide appropriate levels of assurance.

Management response

Agreed.