

Perth College

Year ended 31 July 2017

Annual Audit Report

19 December 2017



Building a better
working world

Contents

Section	Appointed auditor responsibility	Pages
Executive summary		1-3
Accounting and audit matters in respect of the financial statements	Provide an opinion on audited bodies' financial statements	4
	Review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports	5-11
Wider scope audit	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:	
	• financial position and arrangements for securing financial sustainability	13-16
	• suitability and effectiveness of corporate governance arrangements	17
	• effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets	18
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards:	
	Appendix A: audited bodies' responsibilities	20
	Appendix B: required auditor communications	21-22
	Appendix C: auditor independence	23
	Appendix D: management representation letter	24-25
	Appendix E: action plan	26

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Perth College (the College) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the College and is made available to the Auditor General and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Purpose of this report

In accordance with section 21 of the Public Finance and Accountability (Scotland) Act 2000, the Auditor General for Scotland appointed EY as the external auditor of Perth College (the College) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both the members of the College and the Auditor General for Scotland, and presented to both College management and those charged with governance, identified as being the Board and the College's Audit Committee. It will be published on Audit Scotland's website.

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

Scope and responsibilities

The Code sets out the responsibilities of both the College and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the Audit Committee on 23 May 2017. We summarise the responsibilities of the College in Appendix A.

Our Annual Audit Plan also provided you with an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £350,000 and a Tolerable Error of £262,500. We reassessed this using the actual year-end figures, to confirm that the materiality remained appropriate for the audit. No adjustment was made to materiality amounts communicated in our Annual Audit Plan. The threshold for reporting audit differences was £17,500.

Status of the audit and audit opinion

We have issued an unqualified opinion that the 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 (SFC) of the state of the affairs of the College 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).

Key contacts

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Acknowledgement

We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Accounting and audit matters – our reporting on the College's financial statements

Preparation of financial statements

- While the core financial statements were provided during the audit process the performance, accountability, remuneration reports and the corporate governance statement were provided after the onsite audit work was completed.
- The draft financial statements presented for audit required a number of amendments to comply with the Statement of Recommended Practice (SORP) disclosure requirements. The most significant presentational adjustment required was the disclosure of a College only statement of comprehensive income and expenditure.
- There were no adjusted audit difference identified to bring to your attention. There were no unadjusted audit differences.

Significant risks

- Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues to indicate any misreporting of the College's financial position based on manipulation of revenue or expenditure transactions.
- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Other inherent risks

- We are satisfied that management has adequate arrangements to ensure that property, plant and equipment is appropriately valued within the financial statements. Management enhanced the disclosure of the College's adopted accounting policy of supplementing the quinquennial valuation with an interim professional valuation, in compliance with the requirements of both the SORP and the FReM.
- The Tayside Pension Fund defined pension scheme liabilities were estimated using actuarial assumptions which we consider to be reasonable. We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Other matters and reporting requirements

- Our testing on opening balances was completed satisfactorily. We have no matters to bring to your attention in respect of our work on the qualitative aspects of the financial statements.
- In respect of our responsibility to report on the regularity of transactions, we have concluded that 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.
- In respect of our 'Opinions on other prescribed matters', which includes the Performance Report, the auditable part of the remuneration report and the Governance Statement we have concluded that our opinion is unqualified. We have not identified any other matters on which we are required to report by exception.

Wider scope audit dimensions – our judgements and conclusions on the College's arrangements

Financial management

- The College reported a surplus of £6.4 million for the year (2015/16: deficit of £0.5 million). This improved year end position is predominantly due to income of £7.3 million in the form of a non-government grant from the Scottish Colleges Foundation in relation to the building of the Academy of Sport and Wellbeing. This grant was recognised fully in year in line with performance conditions and in accordance with FRS 102. The College also reported that it had operated within its resource limits for the year ended 31 March 2017.
- The College has well established financial management arrangements, and we are satisfied that these are adequate for the management of its financial activities.

Financial sustainability

- We have concluded that achieving financial sustainability continues to represent a significant challenge for the College. Financial planning is constrained by the requirement to deliver in year resource targets. The College is working through the implications of the national pay bargaining settlement and how that affects its longer term financial forecasts.
- While the Financial Forecast Return is based on the best available information available to management at the time of preparation, there remain a number of assumptions and sensitivities that could significantly impact the College's sustainability going forward.

Governance and transparency

- We have concluded that the College has generally established a sound basis to demonstrate good governance and transparency in its operational activity.
- There is a commitment to transparency, with the conduct and detail of business of the College made available on the website.
- The independent Board effectiveness review reported on the Board's commitment to continuous improvement of the governance of the College, with some areas of development identified.

Value for Money

- The College Strategic Plan 2016-21 aligns to the University of the Highlands and Islands' Regional Outcome Agreement. Its Vision 2021 strategy is the outcome of extensive consultation. In June 2017 the Board reviewed the final report on the College's performance for the academic year 2015-16 against the Strategic Plan 2013-2016. This included a summary of the key achievements. Performance information is published annually on the website as well as including key measures within the financial statements and Board and committee papers published on the website.
- A post-project review on the Academy of Sport and Wellbeing new build project undertaken by Internal Audit concluded that the project was successful, met user requirements, was completed on time and within the approved budget envelope.

Appendices

We have confirmed our independence to act as auditor of the College. Auditor remuneration of £14,780 was agreed with management. Non-audit services were provided in relation to the College's student support and Educational Maintenance Allowance return.

We have made two recommendations for action by management, both of which have been accepted by management.

1. Financial statements and accounting

1. Financial statements and accounting



The College's annual financial statements enables the Board to demonstrate accountability for its resources and its performance in the use of those resources during the year. They are prepared in accordance with applicable law and UK Generally Accepted Accounting Practice.

Audit opinion

In respect of the financial statements, we report on the truth and fairness in accordance with the requirements of the Further and Higher Education (Scotland) 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended), and United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The detailed form and content of our audit report, plus the requirements underpinning the report, are contained in the Audit Scotland guidance at http://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2017-7_further_education.pdf (Appendix 1).

We have issued an unqualified opinion based on the satisfactory completion of our work.

Financial statements preparation

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

The financial statements were prepared in accordance with the 2015 Statement of Recommended Practice for Further and Higher Education (SORP) alongside the Government Financial Reporting Manual (FRM) 2016/17.

While the core financial statements were provided during the audit process the performance, accountability, remuneration report and the corporate governance statement were provided after the onsite audit fieldwork was completed. The draft financial statements presented for audit required a number of amendments to comply with disclosure requirements. The most significant presentational adjustment required was the disclosure of a College only statement of comprehensive income and expenditure.

Action plan point 1

Materiality

We planned our procedures using a materiality of £350,000. We reassessed this using the actual year-end figures, to ensure that our level of materiality remained appropriate. We did not change our assessment of materiality as a result of this reassessment. Our Tolerable Error for the audit was £262,500 and the threshold for reporting audit differences was £17,500. We also identified areas where misstatement at a lower level than materiality might influence the reader of the financial statements and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits - we applied a materiality of £1,000 based on the potential sensitivity of these disclosures.
- Related party transactions - we considered the nature of these disclosures individually.

Audit differences

There were no adjusted audit difference identified to bring to your attention.

There were no unadjusted audit differences.

Our Audit Plan identified key areas of focus for our audit of the College's financial statements, including significant risks. This report sets out the results of our audit procedures plus relevant observations, including our views on areas which might be conservative, and where there may be potential risk and / or exposure.

Significant risk – risk of fraud in revenue recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We rebutted the presumed revenue recognition risk in relation to SFC core funding to the College. This was based on the fact that the funding is clearly allocated for delivery of activity within the financial year. Prior year College returns to the SFC have demonstrated that it has delivered on student credits (formerly SUMs) with no history of material clawback from the SFC. As there has been no history of issues or concerns raised through internal audit review of the College's data return for funding (FES) to the SFC, we considered the risk over potential clawback due to inaccurate data as low. However we recognise a revenue recognition risk for tuition income and other material income in respect of possible manipulation of cut-off around the financial year end. We also recognise the same risk around incorrect recognition of non-pay expenditure in line with Practice Note 10.

Results of audit procedures

We undertook the following procedures as part of our audit:

- Reviewed and tested revenue and expenditure recognition policies against the relevant accounting standards and the SORP. We also considered any accounting estimates on revenue or expenditure recognition for any evidence of bias.
- Developed a testing strategy in respect of material revenue and expenditure streams. For tuition fees and education contracts, we performed analytical review and substantive testing across a sample of contracts to ensure appropriate recognition. For SFC and other funding body grant income we reviewed all material grant funding recognised in the year for any indicators of either claw-back or that the terms and conditions of the financial memorandum have not been complied with in all material respects. In doing so, we considered the work of internal audit in respect of the College's FES return. We considered the conclusions of internal audit and their opinion on the return as providing additional assurance that there would be no potential reclaim of SFC funding paid to the College. For other income, we performed substantive testing over a sample of transactions to gain assurance.
- We performed focused additional testing around income and expenditure transactions posted at the year end to gain comfort that key items are recorded in the correct accounting period. In particular we focused on any transactions incurred after 31 July, but included in the 2016/17 financial ledger.
- We reviewed and tested a sample of debtor and creditor balances at the year end, including material balances. We undertook an assessment of aged balances held on the balance sheet at year end including investigation of unusual items, such as those past payment due date.

There are no matters to raise with you as a result of the work performed.

Significant Risk, fraud in income and expenditure recognition – what have we concluded?

- Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues to indicate any misreporting of the College's financial position based on manipulation of revenue or expenditure transactions.

Significant risk – management override

What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Results of audit procedures

Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation.

Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias. Management has disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. We have reviewed these and agree with the detail of the assessment performed.

Evaluate the business rationale for any significant unusual transactions

We did not identify any significant unusual transactions.

We have not identified any material weaknesses in the design and implementation of control arrangements tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Significant risk, Management override – what have we concluded?

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Other inherent risks

Valuation of property, plant and equipment

The College's property portfolio totals £33.1 million as at 31 July 2017, with the major elements of this being in respect of land and buildings. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years.

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

Results of audit procedures

In response to the inherent risk we performed the following audit procedures:

- We agreed the carrying value of assets held to source data and enquired of management as to the procedures used to establish whether the source data is complete.
- We reviewed the basis of asset valuations rolled forward from previous years. No interim or full valuations had been undertaken in 2015/16 or 2016/17 with the next interim revaluation due in 2017/18.
- We reviewed the property valuation and challenged management on the possibility of any impairment to the estate in the year that should be recognised prior to the next valuation exercise

We are satisfied that management has undertaken sufficient procedures to gain assurance that property, plant and equipment is held at an appropriate value as at the reporting date. An interim professional valuation will be undertaken in 2017/18.

Other inherent risk, valuation of property, plant and equipment – what have we concluded?

- We are satisfied that management has adequate arrangements to ensure that property, plant and equipment is appropriately valued within the financial statements. Management enhanced the disclosure of the College's adopted accounting policy of supplementing the quinquennial valuation with an interim professional valuation, in compliance with the requirements of both the SORP and the FReM.

Other inherent risks

Valuation of pension liabilities

The College participates in two pension schemes; the Tayside Pension Fund (TPF), and the Scottish Teachers Superannuation Scheme (STSS). While both are defined benefit pension schemes, the College is unable to identify its share of the underlying assets and liabilities of the STSS scheme on a consistent and reasonable basis and therefore, the scheme is accounted for as if it were a defined contribution scheme.

TPF is accounted for as a defined benefit scheme. The net pension liabilities on the balance sheet as at 31 July 2017 arising from participation in the scheme were £9 million.

Results of audit procedures

In response to the identified inherent risk we:

- Obtained actuarial reports at the year end date for the TPF scheme and considered the reasonableness and consistency of assumptions underpinning such reports, in light of guidance available ensuring compliance with funding agreements.
- Utilised our in-house actuaries to assess the reasonableness of key assumptions such as discount rate, inflation and expected market return.
- Performed substantive testing on the valuation of the College's share of the pension assets and audited the calculation of the College's valuation and disclosure in the financial statements.

No matters were identified in respect of our testing over pension assets. In respect of the key assumptions around discount rates and inflation, our actuaries noted that the assumptions were within a range we consider acceptable for the year end date. However, they noted the underlying methodology used to obtain these assumptions was not as robust as they could be, in particular around the estimates of future cash flows for pension costs by the College.

While we are comfortable with the assumptions used for the 2017 financial statements there is a risk that future assumptions are not considered appropriate.

Action plan point 2

Other inherent risk, valuation of pension liabilities – what have we concluded?

- The TPF defined pension scheme liabilities were estimated using actuarial assumptions which we consider to be reasonable. We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Our Audit Plan identified other aspects of our work which arise either in accordance with International Standards on Auditing (UK) or in accordance with the Code. These are set out below.

Other audit matters

Opening balances

International Standard on Auditing (UK) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.

In response, we have:

- Reviewed prior year financial statements, annual audit reports and other reports issued by the former external auditor and held discussions with the former external auditor in respect of previous significant audit issues, corporate governance and as part of our audit risk assessment.
- Substantively tested material opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance.
- Undertaken a mix of testing on balances during 2016/17 which provides assurance on the judgements and estimates made as at 31 July 2016, in particular in relation to the true up of estimates at yearend 31 July 2016 in the 2016/17 financial statements.

We have no matters to report upon completion of these procedures which have not been separately commented on within this report.

Group financial statements

The College prepares group financial statements, consolidating the results of the College and its subsidiary undertakings, AST (Trading) Limited. We are satisfied that the consolidated financial statements have been prepared appropriately. We have also completed the audit of the subsidiary stand alone financial statements and have issued an unqualified audit opinion.

Student support returns

In addition to our audit of the financial statements, we have been engaged by the College to perform the audit of the student support and Educational Maintenance Allowance returns submitted to the SFC. We have completed our work in this respect and anticipate issuing unmodified opinions based on ISAE3000 'reasonable assurance' engagement requirements.

Opening balances / group financial statements – what have we concluded?

- In respect of opening balances, we have no matters to report.
- We are satisfied that the consolidated financial statements have been prepared appropriately. We have completed our audit of AST (Trading) Limited for the year ended 31 July 2017 and have issued an unqualified audit opinion.

In accordance with Audit Scotland requirements, our independent auditor's report also covers the key narrative statements such as the Performance Report, the Accountability Report and the Remuneration and Staff Report which the College is required to include within its Annual Report and Accounts.

Other reporting requirements

Performance Report

In accordance with the Code, we review the information contained within the Performance Report and confirm that this is consistent with the information reported within the financial statements. As a new responsibility in 2016/17, under the Code, Audit Scotland requires us to also express an opinion on whether the Performance Report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

We are satisfied that the information with the Performance Report is consistent with the financial statements and has been prepared in accordance with applicable requirements.

Accountability Report, including the Governance Statement

Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether Governance Statement 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. We are satisfied that the information with the Governance Statement is consistent with the financial statements and has been prepared in accordance with applicable requirements.

Remuneration and Staff Report

Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations. We are satisfied that auditable part of the remuneration and staff report has been properly prepared in accordance with regulations.

Regularity opinion

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

Other reporting requirements – what have we concluded?

- We reviewed the other information presented within the financial statements and provided management with comments to enhance the content, structure and presentation of these. These were amended by management.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We have not identified any other matters on which we are required to report by exception.

2. Wider scope audit

2. Wider scope audit

In accordance with the Code, we provide judgements and conclusions in respect of our work on the four audit dimensions of public sector audit: financial management; financial sustainability; governance and transparency; value for money.

Wider scope audit risks

The Code requires us to undertake work in respect of each of the four dimensions on an annual basis. The Code also sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you. In undertaking our risk assessment in respect of the wider scope audit areas, we distinguish between the definition of 'significant risks' which apply to the audit of the financial statements, by referring to 'Wider Scope Audit Focus Areas'.

In our Annual Audit Plan we did not identify any areas of wider scope audit focus in the current year. We have however, undertaken routine work in respect of each of the audit dimensions, by considering the evidence available to us through various aspects of our work.

Financial management

The College reported a surplus of £6.4 million for the year (2015/16: deficit of £0.5 million). This improved year end position is predominantly due to income of £7.3 million in the form of a non-government grant from the Scottish College Foundation in relation to the building of the Academy of Sport and Wellbeing. This grant was recognised fully in year in line with performance conditions and in accordance with FRS 102. The College also reported that it had operated within its resource limits for the year ended 31 March 2017, with no over or underspend.

Performance against budget

Performance during the year was broadly in line with original budget forecast. The level of SFC funding received was higher than projected. This was due to additional allocations received during the year which were not included within the original budget. The additional funding was partially offset by higher than forecasts operating costs. The most significant of these was the impact of capital grant income noted above and pay awards on teaching and administration staff costs.

Funding aspect	Budget - £m	Actual - £m	Variance - £m
Income	23.249	31.487	8.238
Expenditure*	(23.503)	(24.993)	(1.490)
Total surplus (before tax)	(0.253)	6.494	6.748

*Includes net non-operational expenditure

Capital Expenditure

During 2016/17 the College spent £1.9 million on capital additions. This was primarily in relation to the completion of the Academy of Sport and Wellbeing. The level of expenditure in the year was in line with financial forecasts.

Monitoring of expenditure

Financial performance is monitored through monthly management accounts and is subject to review by the head of finance. The reporting pack also includes an update on major capital projects. Financial performance is monitored by the Principal and senior management team. Performance is monitored and scrutinised by the finance and general purposes committee and the Board.

We reviewed the financial information monitored by senior management, committees and the Board and we are satisfied that the information is sufficiently detailed, including explanation of material variances to provide meaningful information to allow scrutiny and challenge of performance.

2. Wider scope audit



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

Financial management (continued)

Internal control

It is the responsibility of the College to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility, as auditor, is to consider whether the College has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our first year audit has been predominantly substantive in nature, and therefore we have not tested the operating effectiveness of key controls. We have reviewed the high level procedures management have with respect to internal control.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any such matters to report to you.

Internal audit

Henderson Loggie provide internal audit services for the College. Within the 2017 annual report to the Board, internal audit concluded:

“In our opinion the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2016/17 and in prior years since our first appointment in 1998/99.”

We have considered the work performed by internal audit during the year and did not identify any material issues that would impact on our overall opinion on the financial statements or our consideration of the wider scope aspects.

Financial management - what have we concluded?

- The College reported a surplus of £6.4 million for the year (2015/16: deficit of £0.5 million). This improved year end position is predominantly due to income of £7.3 million in the form of a non-government grant from the Scottish College Foundation in relation to the building of the Academy of Sport and Wellbeing. This grant was recognised fully in year in line with performance conditions and in accordance with FRS 102.
- The College has well established financial management arrangements, and we are satisfied that these are adequate for the management of its financial activities.

Financial sustainability is focused on the medium to longer term financial viability, and considers how effectively an audited body is planning to deliver its services over the medium term.

Financial sustainability

Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer-term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Audit Scotland's sector report: Scotland's colleges 2016, highlighted that between 2011 and 2015/16 the Scottish Government funding to the sector reduced by 18% in real terms. While the College's core funding has remained relatively stable in the current year of £6.8 million (2016: £6.2 million) management recognise that savings will be required in future years with envisaged constraints on future public sector resources. This requires an ability to transform and deliver significant recurring efficiency savings, while at the same time ensuring that the impact on core delivery is minimised.

Financial performance

The College delivered a surplus for the year ended July 2017 of £6.4 million against a breakeven budget. Furthermore, the College reported that it achieved its resource targets for the year to 31 March 2017.

The 2017/18 budget was approved in June 2017. The College is budgeting a small deficit position of £358,000, taking into account non-cash expenditure of depreciation of £953,000. Management is continuing to review opportunities to deliver ongoing savings to achieve a breakeven position.

An important part of ongoing financial assurance is regular updates to the Board on monitoring of expenditure against budget and the forecast outcome for the year. Financial performance is scrutinised by the senior management team, the finance and general purposes committee and the Board.

Financial planning

The College has prepared its five-year financial forecasts 2017 to 2022 and submitted these to the SFC. These forecast marginal total comprehensive income for the next five years. The forecasts have been prepared on the basis of the Board's strategic plans and supporting aims and objectives. While the College has aligned its FFR to its strategic plans, we recognise that the annual resource limits and funding settlements constrain the mechanisms for longer-term financial planning for the sector.

The College's latest FFR forecasts for academic years 2018-19 and beyond are based on the 2017-18 budget adjusted for known and estimated financial impacts, including the recently determined estimated impact of the national pay bargaining settlement. The College's financial forecast return to the SFC provides a five yearly projection. The current forecast identifies key assumptions underpinning these. Furthermore, the College's risk register identifies those critical financial risks to the medium to long-term sustainability of the College.

The key assumptions and sensitivities from review of the financial forecasts are:

- SFC core funding to remain flat over the period from the 2017/18 established allocation.
- Other income includes forecasts for income from the College's trading subsidiary, AST, which continues to operate in a challenging environment and has experienced year on year reductions in revenue. Income is also included for the first time in relation to the College's new Academy of Sport and Wellbeing which came into operation in 2016/17.
- Staff costs increase by 1% annually over the period to 2021/22, from the base 2017/18 cost which takes into account the cost of the recently notified pay awards through national bargaining.

Financial sustainability is focused on the medium to longer term financial viability, and considers how effectively an audited body is planning to deliver its services over the medium term.

Financial planning (continued)

The forecasts demonstrate a good understanding of the long-term pressures facing the College. Management has not included planned savings measures in the FFR, meaning that the unaddressed deficit for the College will climb to £2.5 million by 2021/22 and an underlying operating deficit of £1.8 million. Management notes that in particular staffing levels will not be sustainable at their current level if the College is to achieve a breakeven underlying position.

Financial sustainability – what have we concluded?

- We have concluded that achieving financial sustainability continues to represent a significant challenge for the College. Financial planning is constrained by the requirement to deliver in year resource targets. The College is working through the implications of the national pay bargaining settlement and how that affects its longer term financial forecasts.
- While the FFR is based on the best available information available to management at the time of preparation, there remain a number of assumptions and sensitivities that could significantly impact the College's sustainability going forward.

2. Wider scope audit



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

Governance and transparency

The Board and management of the College are responsible for establishing robust governance arrangements. This includes ensuring effective systems of internal control, including arrangements to safeguard public money, and compliance with applicable laws and regulations. While we have not identified any significant risks in relation to the College's governance arrangements through our audit planning, we consider the adequacy and effectiveness of the College's governance arrangements as part of our audit work.

Governance arrangements

The College has in place a number of the key requirements for good governance. We have reviewed Board minutes and papers and found these to set out clearly the matters considered and discussed. Standing Orders regulate how the business of the College is conducted. The Board has approved detailed terms of reference for its standing committees.

During 2016/17 an external effectiveness review of governance arrangements was conducted by the College's internal auditor. The review highlighted the Board's commitment to continuous improvement of the governance of the College. Areas for development were included but not considered to be material gaps in the existing governance arrangements. An action plan of further areas of development was agreed with management and progress on the status of these actions will be monitored throughout 2017/18.

Effective risk management

The risk management policy outlines the approach to risk management, the roles and responsibilities of the Board, the senior management team, and other key parties. It also outlines the key risk management processes and identifies the main reporting arrangements.

Transparency

The College publicises Board and standing committee agendas, minutes and papers on their website on a timely basis. It is clear that the College endeavours to make as much information available as possible, redacting, for example, certain financial information only where it would be considered to be reserved under freedom of information requests.

Governance and transparency – what have we concluded?

- We have concluded that the College has generally established a sound basis to demonstrate good governance and transparency in its operational activity.
- There is a commitment to transparency, with the conduct and detail of business of the College made available on the website.
- The independent Board effectiveness review reported on the Board's commitment to continuous improvement of the governance of the College, with some areas of development identified.

2. Wider scope audit

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively and how performance and outcomes are monitored.

Strategic planning and performance reporting

The College Strategic Plan 2016-21 aligns to the University of the Highlands and Islands' Regional Outcome Agreement. Its Vision 2021 strategy is the outcome of extensive consultation with students, staff, partners and community groups and is designed to take the College forward in the future as a tertiary institution. It recognises the contribution of all areas of the College to its five underlying aims.

The Board monitors the performance of the College against these targets using a balanced scorecard supplemented by a narrative which reports on four cross-cutting themes:

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

In June 2017 the Board reviewed the final report on the College's performance for the academic year 2015-16 against the Strategic Plan 2013-2016 which included a summary of the key achievements in the period. The College publishes its performance information annually on its website as well as including key measures within the financial statements and Board and committee papers published on the website.

Post-project review

In line with good practice, management obtained an independent post-project review on completion of the Academy for Sport and Wellbeing (ASW) new build project. The College contracted through APUC, issuing a contract tender notice through OJEU given the size of the project. The overall funding envelope was £7.5 million with the contractor cost element of this being £5.8 million.

Internal Audit undertook the post-project review, to assess how well the project was managed. Internal Audit's overall conclusion was that:

- ▶ *From interviews with those involved in the project, along with our review of documentation, we consider that the project was successful, with the building meeting user requirements, being completed on time, within the approved budget envelope and of high quality.*

The review set out good practice and lessons to be learned with the main findings of the report. The audit committee considered the report and discussed the best way to ensure the main findings were embedded in College practice for similar projects, given the nature of positive findings.

Value for Money – what have we concluded?

- The College Strategic Plan 2016-21 aligns to the University of the Highlands and Islands' Regional Outcome Agreement. Its Vision 2021 strategy is the outcome of extensive consultation. In June 2017 the Board reviewed the final report on the College's performance for the academic year 2015-16 against the Strategic Plan 2013-2016. This included a summary of the key achievements. Performance information is published annually on the website as well as including key measures within the financial statements and Board and committee papers published on the website.
- A post-project review on the Academy of Sport and Wellbeing new build project undertaken by Internal Audit concluded that the project was successful, met user requirements, was completed on time and within the approved budget envelope.

Appendices

- A. College responsibilities**
- B. Required communications with the Audit Committee**
- C. Auditor independence**
- D. Management representations**
- E. Action plan**

A. College's responsibilities



The Code of Audit Practice summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies

Corporate governance	<p>Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.</p>
Financial statements and related reports	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. <p>Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct / prevention and detection of fraud and error	<p>Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
Financial position	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • such financial monitoring and reporting arrangements as may be specified • compliance with any statutory financial requirements and achievement of financial targets • balances and reserves, including strategies about levels and their future use • how they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their financial position.
Best Value	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

B. Required communications



There are certain additional communications that we must provide to the Audit Committee, in accordance with ISA (UK) 260 and other auditing standards, which are set out below.

Required communication - what is reported?	Our reporting to you
<p>Terms of engagement</p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • Findings and issues around the opening balance on initial audits 	<p>This Annual Audit Report.</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	<p>No conditions or events were identified, either individually or together to raise any doubt about the College's ability to continue for the 12 months from the date of our report.</p>
<p>Fraud</p> <ul style="list-style-type: none"> • Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the College • Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>This Annual Audit Report.</p>

Required communication - What is reported?	Our reporting to you
<p>Misstatements</p> <ul style="list-style-type: none"> Uncorrected misstatements and their effect on our audit opinion The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Significant corrected misstatements, in writing 	<p>This Annual Audit Report.</p>
<p>Significant deficiencies in internal controls identified during the audit</p> <ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	<p>This Annual Audit Report</p> <p>No significant deficiencies were identified in the course of our audit which required immediate communication to the Audit Committee.</p>
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the College's related parties including, where applicable:</p> <ul style="list-style-type: none"> Non-disclosure by management Inappropriate authorisation and approval of transactions Disagreement over disclosures Non-compliance with laws and/or regulations Difficulty in identifying the party that ultimately controls the entity 	<p>We have no matters to report.</p>
<p>Subsequent events</p> <ul style="list-style-type: none"> Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements. 	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Other information</p> <ul style="list-style-type: none"> Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	<p>We have no matters to report.</p>
<p>External confirmations</p> <ul style="list-style-type: none"> Management's refusal for us to request confirmations We were unable to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all requested confirmations.</p>
<p>Consideration of laws and / or regulations</p> <ul style="list-style-type: none"> Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit ad Risk Governance Committee. 	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.</p>
<p>Independence</p> <ul style="list-style-type: none"> Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. 	<p>This Annual Audit Report – Appendix C</p>

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

What we are required to communicate?

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- The principal threats
- Safeguards adopted and their effectiveness
- An overall assessment of threats and safeguards
- Information on the firm's general policies and processes for maintaining objectivity and independence
- Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the College Audit Committee on 29 November 2017.

Summary of fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 July 2017.

Our only non-audit fees in the year relate to our work over the student support and Educational Maintenance Allowance returns, as noted earlier in this report.

Our audit fee was not agreed with management at the time of our Audit Plan. Fees now agreed are shown in the table opposite.

Auditor remuneration	£14,780
Fixed costs *	£1,760
Non-audit fees	£1,500
Total fees	£18,040

* Fixed costs, which are determined by Audit Scotland, comprise £920 pooled costs, £840 contribution to Audit Scotland's costs.

ISA (UK) 580: *Written representations*, requires the auditor to obtain written representation that management, including those charged with governance, has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant, their fair presentation.

Ernst & Young LLP

Atria One
144 Morrison Street,
Edinburgh, EH3 8EB
[Date]

This letter of representations is provided in connection with your audit of the financial statements of Perth College (“the College”) for the year ended 31 July 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the College financial position as of 31 July 2017 and of its income and expenditure for the year then ended in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

We understand that the purpose of your audit of our consolidated financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.
2. We acknowledge, as members of management of the College, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the College and its group in accordance with applicable law and the Financial Reporting Standard 102 The Financial

Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the College, we believe that the College has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the College’s internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by “whistleblowers”) which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the College.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Board of Management of the College and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meetings.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the College's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the College has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. As disclosed in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Going concern

1. We have not identified any material uncertainties that may cast significant doubt about the College's 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.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Management Commentary, the Remuneration Report, the Annual Governance Statement and the Statement of Responsibilities.
2. The disclosures within the Management Commentary reflects our understanding of the financial and non-financial performance of the College over the reporting year, is consistent with the financial statements and has been prepared in accordance with relevant guidance.
3. The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared reflects the College's governance framework, is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
4. The information contained in the auditable part of the Remuneration Report has been prepared in accordance with Accounts direction.
5. We confirm that the content contained within the other information is consistent with the financial statements.

Yours faithfully,

Principal

Chair of the Board of Management of the College

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the Board or management to action.

Classification of recommendations

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

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

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

No.	Findings and risk	Our recommendation and grading	Management response
1	<p>Preparation of the financial statements</p> <p>While the core financial statements were provided during the audit process the performance, accountability, remuneration reports and the corporate governance statement were provided after the onsite audit work was completed.</p>	<p>We have indicated with management that we will undertake a review of the timetable for the audit for 2017/18, building on our first year audit experience and to ensure continued improvement and efficiency in the process.</p> <p>As part of this, management should review their timetable for the preparation of all elements of the financial statements to enable a full draft financial statements to be available for review at the beginning of the audit process.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Agreed.</p> <p>Management will continue to work with the auditor to ensure the process is as efficient as possible.</p>
2	<p>Actuarial assumptions</p> <p>In respect of the key assumptions around discount rates and inflation used in the calculation of pension liabilities at year end, our actuaries noted that the assumptions were within a range we consider acceptable for the year end date.</p> <p>However, they noted the underlying methodology used to obtain these assumptions was not as robust as they could be, in particular around the estimates of future cash flows for pension costs by the College.</p> <p>While we are comfortable with the assumptions used for the 2017 financial statements there is a risk that future assumptions are not considered appropriate.</p>	<p>Management should ensure our audit findings are fed back to the actuaries in advance of the 2017/18 preparation of the FRS102 pensions report and assumptions calculation.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Agreed.</p> <p>Management has requested a detailed explanation of where the differences of opinion with regard to methodology lie to allow them to pass on to the scheme actuaries, and will review next year as soon as the assumption are known for the year.</p>

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