Edinburgh College

2016/17 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Board of Management and the Auditor General for Scotland

13 December 2017

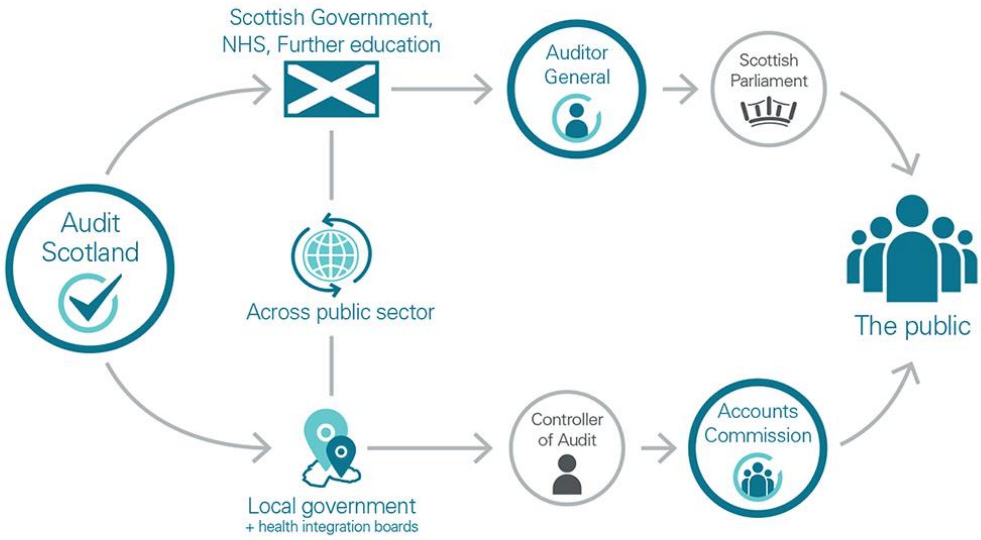
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Audit of the 2016/17 annual report and accounts

1 The financial statements of Edinburgh College give a true and fair view of the state of its affairs and of its net expenditure for the year.

2 Our audit opinions are unqualified. These cover: the financial statements and regularity of expenditure and income; the performance report and governance statement; and aspects of the remuneration and staff report.

Financial management

3 The Statement of Comprehensive Income for the period to 31 July 2017 records an operating deficit of £2.479 million (£7.035 million in 2015/16).

4 In accordance with Scottish Funding Council guidance, the college has calculated its "underlying deficit" to be £2.5 million in 2016/17, which compares well with the £3.9 million deficit in 2015/16 and the £3.8 million deficit budgeted for in 2016/17.

5 The college was late in submitting National Fraud Initiative data. As a result, matches were only available for follow-up in May 2017. Work on reviewing matches commenced in June and is now largely concluded.

Financial sustainability

6 The college met the financial targets for 2016/17 set out in its business transformation plan. It will need to ensure that savings achieved are sustained in future years.

7 Additional savings will be required in 2017/18 if the college is to maintain progress towards returning to surplus in 2018/19. Voluntary severance has delivered less savings than planned. The college will need to continue to identify savings from elsewhere to make up not only this shortfall but the additional pay costs as a consequence of the national pay agreement.

Governance and transparency

8 The college has appropriate arrangements in place that support good governance, accountability and scrutiny.

Value for money

9 The college is making progress on its business transformation plan and, in addition to delivering its overall planned savings in 2016/17, met its learning activity targets for the first time since 2012.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of Edinburgh College.

2. The scope of our audit was set out in our Annual Audit Plan presented to the April 2017 meeting of the Audit and Risk Assurance Committee. It comprises:

- an audit of the annual report and financial statements
- consideration of the wider dimensions set out in the *Code of Audit Practice 2016* as illustrated in Exhibit 1.

Exhibit 1
Audit Dimensions

Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- obtaining an understanding of Edinburgh College's main financial systems and the related key controls, together with an overview of governance arrangements
- an audit of the college's 2016/17 annual report and financial statements including the issue of an independent auditor's report setting out our opinions
- consideration of the matters raised in the Auditor General for Scotland's s22 report on Edinburgh College issued in March 2017.

4. Edinburgh College is responsible for preparing the annual report and financial statements. Also, it must put arrangements in place for governance, propriety and regularity that enable the college to successfully deliver its objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the *Code of Audit Practice 2016*, and supplementary guidance, and are guided by the auditing profession's ethical guidance.

6. As public sector auditors we give an independent opinion on the annual report and financial statements. We also review and report on the arrangements within Edinburgh College to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016*.

8. This report raises matters from the audit of the annual report and financial statements, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.

9. Our annual audit report contains an action plan at Appendix 1 (page 27). It sets out specific recommendations, responsible officers and dates for implementation.

10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. This report is addressed to both the Board of Management and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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

Part 1

Audit of the 2016/17 annual report and accounts

Main judgements

The financial statements of Edinburgh College give a true and fair view of the state of its affairs and of its net expenditure for the year.

Our audit opinions are unqualified. These cover: the financial statements and regularity of expenditure and income; the performance report and governance statement; and aspects of the remuneration and staff report.

Unqualified audit opinions

13. The annual report and financial statements for the year ended 31 July 2017 were approved by the Board of Management on 12 December 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- unqualified audit opinions on the remuneration and staff report, performance report and governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The board's annual report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

15. We received the unaudited annual report and financial statements on 2 October 2017 which was in line with our audit timetable.

16. The working papers provided with the unaudited financial statements were of satisfactory standard and finance staff provided excellent support to the audit team which helped ensure the final accounts audit process ran smoothly. The first version of the accounts received for audit did not fully comply with the accounting guidance and required updating. Further detail is provided below.

Risks of material misstatement

17. Appendix 2 provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and our conclusions.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

19. Our initial assessment of materiality for the annual report and financial statements was carried out during the planning phase of the audit. Specifically with regard to the annual report and financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the annual report and financial statements we reviewed our original materiality calculations and updated these to reflect the reported outturn at 31 July 2017 and is summarised in Exhibit 2.

Exhibit 2
Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 July 2017.	£702,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£351,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of overall materiality.	£21,000

Source: Audit Scotland

Evaluation of misstatements

21. We identified one matter which exceeded our reporting threshold, relating to the untaken annual leave accrual. The college's calculation excluded employers' costs and untaken leave in respect of part-time support staff. The additional cost was estimated to be £189,000 and if adjusted would increase net expenditure by £189,000 and decrease the net assets in the balance sheet by a similar amount.

22. As part of the college's ongoing financial statements review, management identified a number of adjustments to the financial statements during the course of our audit work. If adjusted these would decrease net expenditure by £192,000 and increase net assets by the same amount.

23. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements.

Significant findings

24. International Standard on Auditing 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in Exhibit 3. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 (Page 27) has been included.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
1. Going concern The college reported an operating deficit in the Statement of Comprehensive Income for the period to 31 July 2017 of £2.479 million (£7.035 million in 2015/16). Current liabilities exceed current assets by £6.8 million. The college would therefore be unable to meet its liabilities if they became due. The position has improved from 2015/16 when the college had net current liabilities of £7.4 million. We recognise that current liabilities include £3.3 million deferred capital grants. The college is anticipating continuing financial pressure until the transformation plan targets are met.	The SFC provided a letter of assurance to Edinburgh College in November 2016. The SFC has provided financial assurances which recognise the college's financial position and the action being taken by the college to address the financial challenges it faces. In view of the SFC's assurances and the college's transformation plan (which extends until 2018/19), we agree with the college's view that the adoption of the going concern basis for accounting is appropriate.
2. Additional SFC funding The SFC provided additional funding of £2.9 million to assist the management of college cash flow. The SFC will recover this money through adjustments to future grant funding dependent upon the college's financial position. The £2.9 million is disclosed as 2016/17 income in the accounts (Business Transformation Plan Grants). Due to the uncertainty regarding payback, neither a liability nor contingency for repayment has been disclosed in the financial statements. This is consistent with the accounting treatment in the SFC's accounts. We determined that the impact of the additional funding should be included as part of the underlying financial position disclosures. We recommended to management that it would be more appropriate to describe this as 'exceptional income'.	Given the uncertainty over when the funding will be recovered by the SFC, we consider that the accounting treatment is appropriate. Management agreed to amend and provide disclosure in the Performance Report (the underlying financial position) where it is deducted as 'exceptional income'. As a consequence, this adjustment (together with a separate minor amendment) changed the underlying operating position from a surplus of £0.477 million to a deficit of £2.544 million. We agreed with the revised presentation in the financial statements.
3. Presentation of performance and accountability reports The accounts direction (issued by the SFC) provides clear guidance as to the requirements for the Performance Report and the Accountability Report. The draft accounts submitted for audit contained several inconsistencies when compared to the guidance. In particular, the remuneration and staff	These points were raised with officers early in the audit process and changes were subsequently made to the annual report which brought them into line with the accounts direction. Action Plan (Appendix 1, point 1)

Issue	Resolution
report did not contain details of staff numbers, staff composition and details of exit packages agreed in the year.	
4. Untaken annual leave accrual The college included an accrual for untaken employee leave at the end of July 2017, as required by accounting standards. Audit testing of the calculation supporting the accrual established that it did not take account of national insurance and pension contributions, and part-time support staff. There was a particular challenge in relation to the accrual for part-time support staff as the information is not held on the central HR system.	Assurances have been provided by the Principal that the estimate as included in the accounts is reasonably based. Management provided us with an estimate of the potential additional amounts involved if the required employers' costs and part-time support staff were to be included. We reviewed the calculation and agreed with its basis. We have recommended that management review the calculation going forward and consider how to estimate and evidence the accrual in respect of part-time support staff. Action Plan (Appendix 1, point 2)

Other matters

25. Our audit identified a number of other presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and financial statements.

26. Following the merger in 2012 of Telford, Jewel and Esk and Stevenson Colleges, all non-current asset valuations were added to the financial ledger and fixed asset register. The related information is held in a range of different spreadsheets which makes the audit trail difficult to follow. For example unique asset references, asset descriptions and campus assets are held on separate spreadsheets and details of asset disposals and additions have to be reviewed in another spreadsheet. Management have agreed to review the working papers going forward.

Part 2
Financial management

Main judgements

The Statement of Comprehensive Income for the period to 31 July 2017 records an operating deficit of £2.479 million (£7.035 million in 2015/16).

In accordance with Scottish Funding Council guidance, the college has calculated its "underlying deficit" to be £2.5 million in 2016/17, which compares well with the £3.9 million deficit in 2015/16 and the £3.8 million deficit budgeted for in 2016/17.

The college was late in submitting National Fraud Initiative data. As a result, matches were only available for follow-up in May 2017. Work on reviewing matches commenced in June and is now largely concluded.

Financial performance in 2016/17

27. Financial performance has been assessed in two ways. Paragraph 28 refers to the deficit recorded in the Statement of Comprehensive Income and paragraph 31 refers to the calculated underlying financial position in accordance with SFC guidance.

28. .Edinburgh College reported an operating deficit in the Statement of Comprehensive Income for the period to 31 July 2017 of £2.479 million (£7.035 million in 2015/16) as illustrated in Exhibit 4. This reported position compares to a budgeted deficit of £3.814 million.

Exhibit 4
Performance in 2016/17 compared to the previous year

Performance compared to the previous year	2016/17 £ million	2015/16 £ million	Movement £ million
Income	67.676	64.444	3.232
Expenditure	(70.155)	(71.479)	1.324
(Deficit)	**(2.479)**	**(7.035)**	**4.556**

Source: Edinburgh College accounts 2016/17

29. Income increased by £3.232 million during the year mainly due to:

- An increase in SFC funding of £4.214 million consisting of:
  - an additional £1.917 million in recurrent grant [largely due to funding reductions (or 'claw backs') which reduced the 2015/16 figure by £1.923 million not being repeated in 2016/17]
  - an additional £1.125 million in voluntary severance grants [£1.775 million in 2016/17 compared to £0.650 million in 2015/16]
  - an additional £0.977 million in business transformation grants [£2.900 million in 2016/17 compared to £1.923 million in 2015/16]
- Decreases in other income, totalling £0.982 million. These include employability contract income [reduced £0.587 million] and residences and catering income [reduced £0.235 million].

30. Expenditure decreased by £1.324 million due primarily to:

- A decrease of £0.594 million in other operating expenses
- A decrease of £0.708 million in depreciation
- A decrease of £0.259 million in interest and finance costs
- Off-set by a £0.254 million increase in staff costs due to voluntary severance (VS) costs [recurring staff costs have reduced by £0.488 million].

31. The college accounts also include an analysis of the underlying financial position, as required by the SFC's accounts direction. This new disclosure follows a recommendation in the Audit Scotland report 'Scotland's colleges 2017' and provides an analysis of the current financial position. This removes items such as pension and depreciation adjustments. Exhibit 5 below shows that, this results in an underlying deficit of £2.554 million for 2016/17, compared to an underlying deficit of £3.862 million in 2015/16.

Exhibit 5

Underlying financial position in 2016/17 compared to the previous year

Underlying financial position compared to the prior year	2016/17 £ million	2015/16 £ million	Movement £ million
(Deficit)	**(2.479)**	**(7.035)**	**4.556**
Depreciation (net of deferred capital grant release)	2.235	2.862	(0.627)
Non-cash pension adjustments	2.198	1.829	0.369
Exceptional Income	(2.900)	0	(2.900)
Revenue funding allocated to loan repayments and other capital items	(1.598)	(1.518)	(0.080)
Underlying operating surplus / (deficit)	**(2.544)**	**(3.862)**	**1.318**

Source: Edinburgh College accounts 2016/17

Note: The college's underlying position for 2016/17 is relatively close to its reported position on the Statement of Comprehensive Income because the effect of pension and depreciation adjustments is negated by one further adjustment for business transformation funding of £2.9 million received in the year from the SFC. The college is required to repay this funding to the SFC (timescale currently unspecified) therefore the college has deducted this from its deficit as exceptional income to arrive at its underlying position.

32. The college is currently implementing a business transformation plan (BTP) to address significant financial challenges. The BTP contains a programme for financial sustainability and outlines a series of expected savings. The 2016/17 budget was set in context of the plan which anticipates a surplus in 2018/19. More information on the expected savings is provided in Part 3 of this report (Financial Sustainability).

33. The level of SFC recurrent grant is based on the amount of learning which the college delivers. This is measured in units, that is 'credits' which equate to 40 hours of learning. The college was set a target by the SFC of 186,028 credits for 2016/17 and reported delivery of 186,978 credits. The college's internal auditor carries out checks to confirm the accuracy of the reported activity/credits.

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

34. Although the college recorded a deficit in 2016/17, the amount of the deficit was less than the previous year and is favourable when compared to the budget. Much of this relates to the achievement of savings. Further savings will be required in 2017/18 to maintain progress of the college's transformation plan.

Financial Position

35. As at 31 July 2017 the college had total reserves of £46.0 million representing the Revaluation Reserve (£27.5 million) and the Income and Expenditure Reserve (£18.5 million). The Income and Expenditure Reserve includes accounting adjustments originating from the formation of the college and as a consequence the majority of the balance is not available to support expenditure. There is scope for the college to provide more details about the Income and Expenditure Reserve, to assist understanding of the college's finances and to enhance transparency.
Action Plan (Appendix 1, point 3)

Capital allocation

36. In 2016/17, the college received a capital allocation of £1.617 million. Capital expenditure of £1.6 million was incurred during the year and included for example, £0.619 million on computer equipment, £0.838 million on fixtures and fittings.

Budgetary control

37. Senior management and board members receive regular and timely monitoring reports. The reports are detailed and include variances against budget for the period and year to date with explanatory notes summarising actions taken to address adverse variances. The reports also include a projected outturn for the year.

38. We concluded that the college has robust budgetary monitoring and control arrangements that support effective scrutiny of the college's finances.

Internal controls

39. As part of our audit, we considered key internal controls. Our objective is to gain assurance that the college has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

40. We identified a small number of matters arising. These included:

- the need to further develop and evidence the controls surrounding employee validation checks
- the need to evidence supervisory checks on ledger reconciliations
- the need to introduce controls to ensure overtime claims are submitted timeously.

41. We will follow up these matters as part of our ongoing audit.

Standards of conduct for prevention and detection of fraud and error

42. We reviewed the college's arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. As part of this work we reviewed the college's anti-bribery and whistleblowing policies and the college's codes of conduct for staff and board members.

43. We concluded that the college has appropriate arrangements for the prevention and detection of fraud and other irregularities during 2016/17. The anti-fraud and corruption policy was due to be updated in November 2016 but this has not yet been actioned.

National Fraud Initiative

44. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. See Exhibit 6 below:

Exhibit 6

National Fraud Initiative

Total number of matches

364

Number recommended for investigation

47

Completed/closed investigations

111

Source: NFI Database

45. Edinburgh College was late in submitting its NFI data. Data was due in October 2016 but, due to work pressures, the college only submitted its data in February 2017. Matches were provided to management in May 2017. Work on reviewing matches commenced in June 2017. 364 matches were identified of which 47 were classified as 'high quality' and recommended for investigation. Despite the late start, management has reviewed and closed 111 cases, including all high quality matches. Four cases required further follow up resulting in the identification of overpayments which are being recovered.

46. Due to the timing of the data return and action to review the matches, no report has yet been provided to board members. Management should advise the Board of Management of the process and outcome in due course. Action Plan (Appendix 1, point 4)

Part 3

Financial sustainability

Main judgements

The college met the financial targets for 2016/17 set out in its business transformation plan. It will need to ensure that savings achieved are sustained in future years.

Additional savings will be required in 2017/18 if the college is to maintain progress towards returning to surplus in 2018/19. Voluntary severance has delivered less saving than planned. The college will need to continue to identify savings from elsewhere to make up not only this shortfall but the additional pay costs as a consequence of the national pay agreement.

Financial planning

47. On-going budget pressures within the further education sector mean that it is crucial that the college has plans in place to support financial sustainability in the longer term.

48. To help it address recent financial challenges, Edinburgh College developed a business transformation plan (BTP). The college has sought and received the following additional funding from the SFC:

- £2.55 million was received in 2015/16 (£1.9 million additional transformation funding and £0.65 million voluntary severance funding)

- £5.3 million was received in 2016/17 (£2.9 million was provided as a cash advance and £2.4 million voluntary severance funding). The SFC may recover the cash advance through adjustments to future grant funding dependent upon the college's financial position.

49. This BTP anticipates a smaller deficit of £0.546 million in 2017/18, followed by a surplus of £0.584 million the following year. This is dependent upon the college delivering further savings, see Exhibit 7.

Financial sustainability looks forward to the medium and long term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Exhibit 7
Business transformation plan savings

Savings for future starting budgets	2015/16 £ million	2016/17 £ million	2017/18 £ million
Forecast workforce savings (voluntary severance)	1.03	3.22	0.35
Forecast other savings	0	0.38	0.45
Forecast savings per BTP	**1.03**	**3.60**	**0.80**
Accumulated forecast savings per BTP	**1.03**	**4.63**	**5.43**
Actual workforce savings (voluntary severance)	1.07	2.48	-
Actual other savings	0	1.34	0.1
Total actual savings	**1.07**	**3.82**	**0.1**
Total accumulated actual savings	**1.07**	**4.89**	**4.99**
(Under)/over achievement of actual savings vs forecast	**0.04**	**0.26**	**(0.44)**

Source: Management Accounts to September 2017, Edinburgh College

50. Exhibit 7 shows that savings were achieved in 2015/16 and 2016/17, but the amount from VS was less than planned. Management are currently reviewing whether the planned fourth phase (due in 2017/18) will proceed. There remains around £0.600 million SFC funding originally earmarked for funding VS which has not yet been drawn down. The college is currently in discussion with the SFC about potential other uses of this money in order to achieve further savings.

51. The college achieved more savings from other sources in 2016/17 than planned. This off-set the shortfall in savings through VS and allowed the BTP to remain on track. These other savings, totalling £1.34 million, included:

- £0.40 million from deleting posts which were vacant and no longer required
- £0.44 million from premises, energy saving costs, IT, marketing and commission and VAT (arising from other savings)
- £0.14 million from the centralisation of print services.

52. Management is confident that these amounts are recurring, i.e. will also be achieved in future years. Even allowing for that, the college must still deliver further savings of around £0.44 million in 2017/18 for the plan to remain on track. Action Plan (Appendix 1, point 5)

53. The further education sector has introduced national bargaining for its staff pay negotiations. Previously colleges undertook negotiations at a local level. As a result, new national pay scales and standard terms and conditions are being introduced. The amount of additional cost to each college depends on its position relative to the new scales and conditions.

54. Edinburgh College's 2017/18 budget assumes a £1.160 million increase in staff costs as a result of the pay negotiations which incorporated elements relating to annual pay increases and harmonisation of pay and conditions. This represents 1.7% of total spend per the indicative budget presented to the Board in June.

55. Along with other factors, the pay awards have contributed to an increased deficit of £0.974 million in the 2017/18 indicative budget compared to £0.543 million in the BTP. The indicative budget was submitted to and approved by the Board in June 2017. The college applied a priority based budgeting (PBB) approach in 2017/18 as part of the financial sustainability programme in the BTP. This aligns spending decisions with the college's main priorities and resulted in savings of £0.4 million. The college believes that further work is required to fully embed PBB.

56. As a result, the budgeted deficit was revised down to £0.514 million in August 2017. A paper was circulated to board members to inform them of this change. The management accounts for the period to end of September 2017 forecasts that the college will return a deficit of £0.514 million which is within the BTP target of £0.543 million.

57. Audit Scotland's 'Scotland's colleges 2016' recommended that colleges prepare long term financial plans (i.e. a minimum of five years). The 2017/18 budget paper also included financial forecasts for the three subsequent years to 2020/21. This highlights that further savings totalling £3.723 million will be required in the years 2018/19 to 2020/21. The Financial Forecast Return (FFR) provided to the SFC covered the years 2016/17 to 2021/22.

Workforce planning

58. The college's BTP includes a 'workforce development and structure' programme. This involves a number of projects which are regularly monitored at the Policy and Resources Committee. Key projects within this are 'teaching staff realignment' (which is interdependent on the Curriculum Planning Project) and 'corporate staff realignment'.

59. Both of these projects involve reducing the workforce by implementing a VS scheme involving both teaching and support staff. In addition to the 112 departures resulting from VS, the college funded the departure of a further eight former heads of service and deleted 19 vacant posts.

60. The college is currently finalising its new staffing structures as part of the staff realignment project. Dependent on the outcome of this review, further work may be required to ensure that the college has the necessary workforce in place to meet future demands. The college will have to ensure that sufficient staff are retained to deliver learning targets. Action Plan (Appendix 1, point 6)

Part 4

Governance and transparency

Main judgements

The college has appropriate arrangements in place that support good governance, accountability and scrutiny.

Governance arrangements

61. As part of the wider review of governance arrangements across the public sector, we completed a follow-up of our 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at audit and risk assurance committee meetings.

62. The membership of the Board of Management has changed significantly since August 2015. Eleven out of the eighteen members are new and a new College Principal took up post from May 2015.

63. The board membership consists of a range of experienced people from varied backgrounds, bringing different viewpoints and questioning. The college board is well established, with board members demonstrating strong commitment to their roles and responsibilities.

64. The board demonstrates commitment to continuous improvement and personal development. The arrangements in place also support effective working relationships between the board and management.

65. We concluded that, overall, Edinburgh College has appropriate arrangements in place that support good governance, accountability and scrutiny.

66. We noted that the Chair of the Board has attended all Audit and Risk Assurance Committee meetings this year. While the presence of the Board Chair is to be welcomed and encouraged on occasion, there is a risk that the Chair's presence may inhibit full and frank exchanges at committee meetings. The Chair should therefore assess whether his presence is necessary at all meetings.

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.

College Code of Good Governance

67. The Code of Good Governance for Scotland's Colleges ("the Code") was reviewed and updated in August 2016. Colleges are expected to comply with the principles of the revised Code from 1 August 2016 and the first year of compliance with the updated Code was to be reported in the Corporate Governance statement included in the 2016/17 annual financial statements of the college. The corporate governance statement includes the required disclosure.

68. Edinburgh College's external validation of its self-evaluation was passed to the SFC in accordance with SFC's requirements in March 2017, together with its development plan. The independent assessment found that, for example:

- Edinburgh College Board is composed of highly engaged and motivated individuals which is a highly cohesive and resilient unit and most of the individual directors interviewed have the necessary skill sets and experience to contribute to the health and success of the college.

- The non-executives allocate sufficient time to the college and discharge their responsibilities effectively. They act independently, in good faith and in the long-term interests of the college. The longer-serving non-executives are seasoned and highly attuned to the changing landscape.

- The observed board meeting functioned effectively with much of the credit for this going to the self-discipline of board members and the skills of the Chairman.

- The support for the Chairman amongst board members is unequivocal. He welcomes feedback on his own performance and has led the Board to evaluate its effectiveness.

- The Governance Unit has improved information flows into the board and there is a more coherent governance architecture for decision-making on policy, strategy, accountability, risk and control. Board processes are efficient and supportive of the work of the Chairman and board members.

69. The review identified a number of challenges. These included:

- succession planning of board members will be key to the future effectiveness of the board

- the improvement of financial performance based on student retention and recruitment is essential

- the quality and quantity of board information and the clarity of board decision making and evaluation should continue to be developed.

70. Many of the changes were being driven forward by the Head of Corporate Development who left post in September 2017. At its meeting in September 2017, the Board of Management agreed that the Chief Operating Officer would assume the role of Acting Board Secretary until a replacement Head was appointed. A new Head of Corporate Development has been appointed and is due to start at the college in early December 2017.

The annual governance statement

71. The guidance issued by the SFC accompanying the 2016/17 Accounts Direction requires Edinburgh College to include a statement covering the responsibilities of their governing body in relation to corporate governance. Disclosure must be made in relation to compliance with the principles set out within the 2016 Code of Good Governance for Scotland's Colleges and must comply with the guidance within Scottish Public Finance Manual (SPFM).

72. Neither the SFC guidance nor the SPFM prescribe a format for the annual governance statement, but sets out minimum requirements. Within Edinburgh College all Executive Team members are required to provide the Principal with signed certificates of assurance.

73. We concluded that the annual governance statement complies with the guidance issued and based on our knowledge and work performed presents a comprehensive picture of the governance arrangements in place.

Internal audit

74. Internal audit provides the Board and Principal with independent assurance on the Board's overall risk management, internal control and corporate governance processes.

75. The internal audit function is carried out by an independent third party. We reviewed the activities of internal audit against the requirements of Public Sector Internal Audit Standards. This included a review of the internal audit charter, independence, reporting lines and the knowledge, skills and experience of internal audit staff. Additionally, we considered the requirements of ISA 610 (Considering the Work of Internal Audit).

76. We are satisfied that the internal audit function is effective, operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

77. From our review of internal audit we concluded that we could place formal reliance on aspects of the internal audit review on college compliance with SFC guidance in completing the annual return on student activity. We also considered internal audit report findings in other areas (priority based budgeting and management accounting; financial management; programme governance; EMA, bursaries and student support funds and establishment management) as part of our wider dimension work.

Risk management

78. We reviewed the arrangements for managing risk within the college. The Risk Management Group is responsible for assessing the top risks facing the college and developing strategies to manage these risks and report back to the Audit and Risk Assurance Committee. The committee receives regular updates on risk management arrangements together with progress reports and is responsible for the consideration and assessment of the strategic risks identified by the Board.

79. Management is required to complete a standard risk register measurement form at least three times a year: this ensures that a consistent approach to risk measurement and reporting is developed across the college. Risk assessment, measurement and reporting is very detailed and continues to develop.

80. We concluded that there are robust procedures in place which are actively monitored by members and senior staff.

Early retirement / severance costs

81. The Remuneration and Staff Report notes that there were 81 exit packages agreed during 2016/17 at a cost of £1.9 million. We reviewed a sample of voluntary severances and concluded that that the college followed SFC guidance. In two instances there was a longer pay-back period than the 12 month period laid down by the SFC. In both cases, the college received permission from the SFC prior to approving them.

Transparency

82. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions about how it is using resources such as money, people and assets.

83. The college's board meetings are not held in public. Agenda papers and minutes for the board and standing committees are posted on the college's website on a timely basis with only those papers deemed confidential and sensitive not being released.

84. We concluded that the college is transparent in its publication of papers. With increasing public expectations for more openness in the conduct of public business, the college needs to keep this area under review and consider whether there is scope to further enhance transparency.

Register of interests

85. Public bodies are required to disclose organisations with which it has transactions where members of its Board of Management hold a level of interest. In order to provide this disclosure, the college maintains a register of interest for all members of the Board of Management. Members are required to update the register on a timely basis. Our audit testing found that two members had not provided updates within the last two years.

86. Our review also noted that the register does not identify when board members held their respective roles. The update process should make it clear what positions were held by members during the reporting year. In addition the FE SORP refers to related parties including senior staff. The college's register of interests only covers the board of management members: it does not extend to all members of the Executive Team. We have recommended to management that it extends the disclosure of interests to all senior staff. Action Plan (Appendix 1, point 7)

Part 5

Value for money

Main judgements

The college is making progress on its business transformation plan and, in addition to delivering its overall planned level of savings in 2016/17, met its learning activity targets for the first time since 2012.

Arrangements for securing value for money

87. The Financial Memorandum between Scottish Funding Council and fundable bodies in the further education sector requires the college to:

- have a strategy for reviewing systematically management's arrangements for securing value for money, and
- as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

88. The college has been focusing on achieving its business transformation plan and this has formed the basis of its strategy for securing value for money. Internal audit has recorded in its annual report that in their opinion, the college has an adequate and effective framework of governance, risk management and internal control, and proper arrangements are in place to promote value for money and deliver best value in the achievement of organisational objectives.

Performance against the business transformation plan

89. As noted previously, the business transformation plan (BTP) has been in place since 2016 and was created in response to funding reductions following problems in how the college calculated the amount of learning it provided. The delivery of the BTP has been the key target for the college since then. The BTP consists of 19 projects across the following four overarching programmes of work:

- financial sustainability (see Part 3 of this report)
- curriculum relevance
- workforce development and structure (see Part 3 of this report)
- student recruitment and retention.

90. The college has established good monitoring processes for the BTP. This involves regular monitoring group meetings involving the college executive team and the SFC. Minutes of these meetings include details of required actions and identify responsible officers and timescales. Regular update reports are provided to meetings of the Policy and Resources Committee (which have also been attended by SFC representatives).

91. The report to the November 2017 Policy and Resources Committee identified that 13 of the 19 projects were closed or nearing completion. The remaining six projects have been assigned a ‘green’ status signifying that they remain on schedule.

Curriculum relevance / student recruitment and retention

92. We met with members of the Executive Team to follow up on progress made against the curriculum and recruitment and retention programmes. We were informed that the college has significantly increased the number of performance reviews, which has moved to a monthly process (previously annually). These reviews consider the level of credits achieved by different courses and flag where targets are not being met. They also consider the levels of attainment and retention and quality of course provision.

93. Curriculum managers are now provided with real time reporting data which helps them make better decisions. This helps to identify courses which are under-recruiting and to switch provision to other areas which have a greater level of demand. The Executive Team acknowledge that this is a significant change for curriculum managers (who now need to anticipate and plan for a range of contingencies) and that the necessary tools are in place to allow them to do this successfully.

94. The college has also conducted a framework review to ensure that staff record and claim learning activity (in the form of credits) in a consistent manner. As part of this, the college has developed an online ‘credit checker’ application to monitor by course and by student, students over and under planned credits. This also allows for more accurate monitoring of +1 (or additionality)[1] to ensure that it is within SFC guidelines. Previous over-use of additionality was identified by the SFC and it was this over-use which consequently resulted in funding reductions in 2014/15 and 2015/16. This matter was highlighted in the reports issued by the Auditor General for Scotland in 2016[2] and 2017[3].

95. The college’s internal auditors reviewed the level of additionality as part of its Review of the 2016/17 Credits Return. They found that the level of additionality claimed by the college was less than one per cent of the overall number of credits allocated to the college for 2016/17. This is within the SFC’s guidelines. Internal Audit also performed a review on those students where additional activity had been claimed and found no issues.

96. The student recruitment project has led to some process changes including the removal of waiting lists and early offer and induction. The college has also been working with the student association to improve retention rates. The application system has also been amended so that students now submit only one application form, regardless of the number of courses being applied for. This has resulted in the student records team spending more time with students on their applications to better match them with available courses.

97. Although the benefits from these projects are mostly expected in 2017/18, the college has reported a slight increase in retention rates from 85.0 to 85.8 per cent since 2015/16. A report to the August meeting of the Policy and Resources Committee highlighted that there had been an increase of 116 (1.26 per cent) in offers for full time courses starting in August 2017 from the previous year.

98. The college met its learning activity target in 2016/17, the first time since it was formed in 2012 (see Exhibit 8). The college also had a target of 2,000 credits for

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[1] Additionality is the provision of additional learning to students who are already enrolled at the college, such as students completing extra units that better prepare them for the workplace.

[2] The 2014/15 audit of Edinburgh College, Auditor General for Scotland, March 2016

[3] The 2015/16 audit of Edinburgh College, Auditor General for Scotland, March 2017

ESF (European Social Fund) eligible places. The SFC administers several programmes such as the Youth Employment Initiative and Developing Scotland's Workforce which attracts an element of funding from the ESF. In previous years, the college has not been able to claim this additional income.

Exhibit 8
Edinburgh College learning activity compared to the core target set by the SFC

Year	Core activity target	Activity delivered	Difference
2012/13	248,072 WSUMs	244,871 WSUMs	-3,201 WSUMs (-1.2%)
2013/14	257,260 WSUMs	255,438 WSUMs	-1,822 WSUMs (-0.7%)
2014/15	254,687 WSUMs	249,832 WSUMs	-4,855 WSUMs (-1.9%)
2015/16	186,258 credits	180,144 credits	-6,114 credits (-3.3%)
2016/17	184,028 credits	186,978 credits	2,950 credits (1.6%)

Source: SFC Infact database (2012/13 to 2015/16) and Edinburgh College credits submission 2016/17

Note: The SFC changed the way it measures learning activity in colleges from WSUMs to credits in 2015/16.

99. The SFC has increased the core activity target for 2017/18 to 185,742 credits. The increase of 1,714 credits relates specifically to childcare courses. In addition, the college has again been set a target of 2,000 ESF credits, making the combined target for 2017/18 187,742 credits. This is 764 credits more than that achieved in 2016/17. Therefore the college will need to sustain and build upon the progress made in 2016/17 if it is to again meet its targets in 2017/18. Action Plan (Appendix 1, point 8)

Strategic planning 2017 onwards

100. The college has developed a new strategic plan for 2017-2022. The Edinburgh College Blueprint supports this, presenting detail on the work which will deliver the strategic plan's objectives. Both of these documents were approved by the Board of Management in September 2017. The change process will be managed through the Edinburgh College Transformation Portfolio which is made up of 19 programmes, building on work started through the BTP (see Exhibit 9).

Exhibit 9
Business transformation projects which are being built upon as part of the college's strategic plan 2017-2022

BTP project	Strategic Plan 2017-2022 Programme
Priority based budgeting	Edinburgh College Blueprint 2017-2022: Effective and Efficient College Programme
Systems Review	Digital Transformation Programme
Estates Review	2017-2022 Transformation Portfolio: Effective and Efficient College Programme
Developing Young Workforce development	2017-2022 Transformation Portfolio: Curriculum Excellence Programme
Non-SFC funding development	2017-2022 Transformation Portfolio: Valued in Partnership and Communication Programme
Leadership Development	2017-2022 Transformation Portfolio: Supporting and Inspiring our People Programme
Quality Improvement Project	2017-2022 Transformation Portfolio: Effective and Efficient College Programme

Source: Business Transformation Plan Update, Policy and Resources Committee, November 2017

National performance audit reports

101. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of national performance reports were published some of which are of direct interest to the College. Appendix 3 to this report provides details of national reports published in 2016/17.

102. The college intends to discuss the Scotland's colleges 2017 national report at the November Audit and Risk Assurance Committee.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
9	**1. Presentation of performance and accountability reports** Guidance issued by the SFC was not applied in the preparation of the financial statements. There is a risk that the accounts presented for audit are incomplete resulting in a delay to the audit or a qualification on the audit opinion.	The college should ensure that all relevant guidance is reviewed and applied in advance of presenting the accounts for audit review.	Generally guidance by SFC and other reporting requirements was applied. Audit Scotland identified some areas that were either missed or could be improved upon. This guidance has been followed and will be carried forward to the 2018 annual accounts. Head of Finance August 2018.
10	**2. Untaken leave accrual** The untaken leave accrual did not include the required employers' costs nor did it include costs relating to part-time support staff. There is a risk that expenditure is understated resulting in a worsening financial position.	The college should provide evidence to back up its estimate of part-time support staff untaken leave. The accrual should include all required costs.	The view taken when preparing this accrual was that because pension on-costs are not paid on annual leave accruals when employees leave employment; this element should not be included. However, Technical Guidance provided by Audit Scotland contradicted this view. The view was also taken that the outstanding annual leave accrual for part-time employees (which is not available within HR systems) should be included but is low value. We are in discussion with Audit Scotland on both of these matters. On conclusion of discussion with Audit Scotland, this will be brought into the 2017/18 annual accounts. Head of Finance August 2018.

Page no.	Issue/risk	Recommendation	Agreed management action/timing
13	**3. Financial position** The Income and Expenditure Reserve includes accounting adjustments originating from the formation of the college and as a consequence the majority of the balance is not available to support expenditure. There is a risk that the information provided lacks transparency and is a barrier to understanding.	Management should review the information provided in relation to reserves to assist understanding of the college's finances and to enhance transparency.	This forms part of the audited accounts for the past 4 years since merger and the balances are not unreasonable. An exercise will be undertaken to establish the historical make-up of this reserve, although it is noted that the cash balance in the balance sheet reflects that the I/E reserve is not cash. Head of Finance – July 2018.
14	**4. National Fraud Initiative** Information was provided late for the NFI data matching exercise and work on reviewing the matches did not commence till June 2017. Members have not been advised of progress. There is a risk that fraud and error may not be detected timeously.	Management should ensure that processes and procedures are put into place to address the bi-annual NFI exercise. Members should be apprised of progress on the review of the 2016/17 matches.	The Head of Finance liaised with the Audit Strategy Manager from Audit Scotland during the process and advised that the College would not be able to meet the requested date of 28 November. However, full data was provided on 3 February 2017. All subsequent information has been provided on time. Head of Finance - action completed.
16	**5. Financial planning** Savings from voluntary severance have been less than planned. Other savings were recognised during the year. There is a risk that these additional savings are not recurring and that the cost base has not been reduced permanently.	The college must continue to deliver recurring savings. Additional savings must be identified to offset the reduction in planned voluntary severance achieved.	Additional savings were achieved from largely vacancies that have been removed from establishment and non-pay budget savings which will recur. Total financial performance is being monitored closely and will highlight progress as targets are being achieved. Head of Finance – ongoing to July 2018.
18	**6. Workforce planning** The voluntary severance programmes have resulted in over 130 staff leaving the College. There is a risk that the delivery of the curriculum is not supported by the appropriate staffing levels and experience.	The college should continue to monitor its staffing levels against the requirements of the curriculum and the achievement of learning targets.	A robust process in compliance and governance was followed before staff were released on voluntary severance. Curriculum planning aligns academic staff with learning targets reflected in the Regional Outcome Agreement and the college is confident that targets will be

Page no.	Issue/risk	Recommendation	Agreed management action/timing
	In addition there is a risk that learning targets are not achieved if the appropriate staff are not retained.		met. Assistant Principal Curriculum Design and Development – Ongoing to July 2018.
22	**7. Register of interests** Procedures for recording members' interests could be improved. Only Board of Management members formally record their interests. There is a risk that a conflict of interests arises and is contrary to the principles within the Code of Conduct.	Members should ensure their updates are formally recorded in the register of interests. All Executive Team members should be asked to declare their interests formally in accordance with the FE SORP.	This will be adopted in the current financial year 2017/18. Board Secretary – 1 December 2017.
24	**8. Curriculum relevance / student recruitment and retention** The college met its learning activity target in 2016/17 the first time the target was met since the college was formed in 2012. There is a risk that the college cannot sustain its achievement of activity targets resulting in financial clawback.	The college must sustain and build upon the progress made in 2016/17 to again meet its targets in 2017/18.	The curriculum programmes within the Transformation Plan have successfully embedded performance review management across academic areas to reduce the risk of failing to meet credit/activity targets. This approach continues through the College's renewed strategy and blueprint from 2017 to 2022. Assistant Principal Curriculum Design and Development – Ongoing to July 2018. Assistant Principal Recruitment and Retention – Ongoing to July 2018.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

	Audit risk	Assurance procedure	Results and conclusions
	Risks of material misstatement in the financial statements		
1	**Risk of management override of controls** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	We tested journal entries and reviewed accounting estimates. We undertook: • Focused testing of accruals and prepayments. • Focused testing of accounting adjustments at the year-end. We also evaluated significant transactions that are outside the normal course of business.	We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.
2	**Risk of fraud over income** ISA 240 requires auditors to presume a risk of fraud where income streams are significant. Edinburgh College recorded income of £64 million in 2015/16, of which £48 million was provided by the Scottish Funding Council (SFC) and £16 million was received from other sources. SFC funding is reliant on accurate recording of student numbers and courses provided. In addition, the level of income received from other sources is material. We are unable to rebut the risk of material misstatement due to fraud.	We reconciled SFC grant income to the funding allocation. We relied on aspects of internal audit work on student activity. We reviewed systems for recording student activity. Analytical procedures on income streams were undertaken. Detailed testing of revenue transactions focusing on the areas of greatest risk was undertaken.	Our testing did not identify any issues with Edinburgh College's revenue recognition procedures. We substantively tested a sample of income transactions: no issues were identified. Our work on reviewing systems for recording student activity was limited to a discussion with officers and review of reports provided to management. We reviewed Internal Audit's work on student credits. No material issues were raised. Reference to this work is included at Part 5 of this report.
3	**Financial Position / Going Concern** The College reported a deficit of £7 million in 2015/16. Excluding pension accounting adjustments, the underlying position for 2015/16 was a £4	We monitored progress on the financial position. We relied on aspects of internal audit work on student activity. We reviewed of systems for	Refer to part 1 of this report. We have noted that savings have been achieved by the college but there remains an underlying deficit position. The SFC provided an additional £2.9million as agreed together

	Audit risk	Assurance procedure	Results and conclusions
	million deficit. The College is forecasting a deficit of £3.5 million for 2016/17. The financial position is dependent on a range of outcomes. These include: • reducing expenditure generally across the College • the achievement of student activity targets • the ability to effectively manage cash balances including the repayment of cash advances provided by SFC • the achievement of the milestones set out in the Transformation Plan. There is a risk that the anticipated financial outcome is not achieved and further financial support will be required from the SFC.	recording student activity.	with specific funding for voluntary severance. However there continues to be a net current liabilities position reported in the balance sheet. Our work on reviewing systems for recording student activity was limited to a discussion with officers and review of reports provided to management. Reference to this work is included at part 5 of this report. We reviewed Internal Audit's work on student credits. No material issues were raised. Based on assurances provided by the SFC together with a projected improving financial position, we can agree with management's assertion that it is appropriate to adopt the going concern basis in preparing the 2016/17 financial statements.
4	**Estimation and judgements** There is a significant degree of subjectivity in relation to measurement and valuation in the material account areas of non-current assets (£150 million) and the net pension liability under FRS102 (£25 million). This subjectivity represents an increased risk of misstatement in the financial statements.	We reviewed the work of an expert for the professional valuer. We reviewed accounting policies to ensure they were appropriate and properly applied. Focused substantive testing of year end balances was undertaken.	We reviewed the valuations of the pension liability which were prepared by management's experts. We found these judgements to be sound and, as such, were able to place reliance on the experts' valuations. There was no revaluation of non-current assets during 2016/17.
5	**Pension Liabilities** The College accounts for its membership of Lothian Pension Fund in accordance with FRS 102. The actuarial valuation methodology relies on judgement and assumptions in relation to financial, demographic and mortality factors. The valuation process also relies on the data provided by the College to the actuary being accurate, complete, timely and verifiable. The actuarial input in valuing the Fund could be affected by	We assessed the reliability, professional competence capability and objectivity of the actuary as experts on whom reliance is placed. We reviewed the financial assumptions underlying the actuary's calculations. We reviewed PwC report assessing actuarial processes. We tested/agreed membership data used by the actuary to data from the pension fund. Agreed actuarial reports to financial statements disclosures.	We concluded that the reliance could be placed on the actuary as experts and that the financial assumptions underlying were fairly based. No specific information was provided by the college to the pension fund in respect of retirals during the year. However we were able to conclude that there was no material impact to the reported figures following the implementation of the voluntary severance scheme during 2016/17.

Audit risk	Assurance procedure	Results and conclusions
incomplete or inaccurate information, reliance on source data which is not fully validated or the use of unreasonable assumptions.		
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
6 Financial sustainability The College was heavily dependent on SFC support in 2015/16 in order to meet its liabilities, and will continue to be so until at least 2018/19. Financial sustainability will require achievement of: • the agreed target rate of student activity • the implementation of the curriculum review • voluntary severance scheme targets • Transformation Plan. There is a risk that the College fails to achieve financial sustainability in the short to medium term and that the funding gap is not effectively managed.	We reviewed internal work on the progress of the Transformation Plan and monitored progress on the Transformation Plan. We monitored progress on achievement of financial targets and student recruitment and retention activity.	Internal Audit's work throughout 2016/17 was focussed on the progress on the Business Transformation Plan. No very high risk or high risk matters were raised by Internal Audit. We reviewed Internal Audit's work on student credits. No material issues were raised. The transformation plan has been replaced with the revised strategic plan which has been agreed with the SFC. The college has met and slightly exceeded its agreed target of student activity. The curriculum review continues to be progressed. Management consider that good progress is being made. The voluntary severance scheme did not achieve the anticipated reduction in staffing levels. This will remain the challenge going forward. In addition, the 2017 pay award will impact on the recurring staff costs. Progress has been made towards achieving financial sustainability although it is not clear whether this will be sustained given the continuing challenges facing the college.
7 Financial management Effective financial management requires sufficient financial capacity, sound budgetary processes and a sound control environment with internal controls operating effectively. Given the range of financial challenges facing the College, there is a risk that current arrangements are compromised and are no longer effective.	We reviewed committee minutes and reports monitoring the financial position through the year, specifically any revisions to the Budget. We carried out detailed 'cut off' testing to confirm expenditure and income has been accounted for in the correct financial year.	See Part 2 of this report Our testing did not identify any matters of concern although we discussed and agreed with management that the accounting for the untaken annual leave accrual was understated.

Audit risk	Assurance procedure	Results and conclusions
8 Governance and transparency There have been a number of major changes at the College since its formation in 2012, including a complete management restructuring and an ongoing programme of voluntary severance. In addition, the Board of Management has had to change and adapt to reflect the new College structure. A number of new members joined the Board during 2015/16. With all this change ongoing, there is a risk that : • the Board does not operate effectively • governance arrangements are not effective • there could be an impact on staff morale and turnover • there could be a loss of key staff and knowledge • the College fails to deliver the courses offered in its curriculum.	We reviewed ARAC self-appraisal and annual review outcomes. We reviewed processes for ensuring Register of Interests is up to date. Follow up to our 2010 Role of Boards Report was undertaken and we reviewed compliance with the SFC guidance on good practice in college governance. We reviewed progress on workforce planning and the transparency of College Board and Committee papers.	We have raised a matter in relation to the maintenance of the Register of interests and the extension of disclosure to members of the executive team. Our Role of Boards work is reported in part 4 of this report. Compliance with SFC guidance was independently assessed and is reported within Part 4 of this report. Workforce planning, as part of the transformation plan continues to progress. There is good transparency of college board and committee papers. We found no major matters of concern in relation to governance and transparency.
9 Governance and transparency A Transformation Plan has been developed to help the College move to a sustainable financial position, by improving operations and the delivery of core activity. It consists of 19 projects, forming four overarching programmes of work. There is a risk that, given the level of management change within the organisation that management do not have the capacity or capability to deliver on this essential project.	We reviewed internal work on the progress of the Transformation Plan. We monitored progress on the Transformation Plan and its four programmes including workforce planning. We monitored action taken to ensure achievement of Plan targets.	See Parts 3 and 5 of this report The college has met and slightly exceeded its agreed target of student activity. The curriculum review continues to be progressed. Management consider that good progress is being made. Internal Audit’s work throughout 2016/17 was focussed on the progress on the Business Transformation Plan. No very high risk or high risk matters were raised by Internal Audit. The transformation plan has been replaced with the revised strategic plan which has been agreed with the SFC.

Appendix 3

Summary of national performance reports 2016/17

2016/17 Reports

Aug	Maintaining Scotland's roads: a follow-up report	Superfast broadband for Scotland: a progress update	Scotland's colleges 2016
Sept	Social work in Scotland	Scotland's new financial powers	
Oct	Angus Council: Best Value audit report	NHS in Scotland 2016	
Nov	How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16	
Dec	Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	Scotland's NHS workforce		
Mar	Local government in Scotland: Performance and challenges 2017	i6: a review	Managing new financial powers: an update
Apr			
May	Principles for a digital future		
Jun	Best Value Assurance Report: Inverclyde Council	Common Agricultural Policy Futures programme: further update	Scotland's colleges 2017
Jul	NHS workforce planning		

The following reports may be of particular interest:

Scotland's colleges 2016 – August 2016

Scotland's colleges 2017 – June 2017

Edinburgh College
2016/17 Annual Audit Report

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