Edinburgh College

2017/18 Annual Audit Report

To the Board of Management and the Auditor General for Scotland

12 December 2018

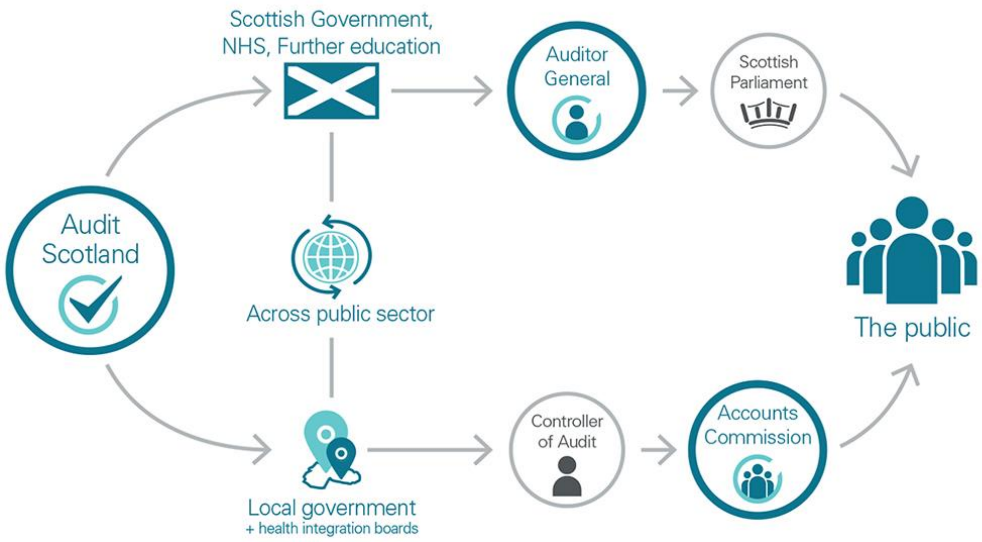
Who we are

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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2017/18 annual report and financial statements

1 The financial statements of Edinburgh College for 2017/18 give a true and fair view of its financial position at the year end.

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

Financial management

3 The Statement of Comprehensive Income for the period to 31 July 2018 records an operating deficit before other gains and losses of £2.299 million (£2.479 million in 2016/17).

4 In accordance with Scottish Funding Council guidance, the College has calculated its 'adjusted operating position' to be a surplus of £0.416 million in 2017/18, which compares well with the £2.5 million deficit in 2016/17.

5 Edinburgh College has appropriate budgetary monitoring and control arrangements that support effective scrutiny of the College's finances.

Financial sustainability

6 The College exceeded the financial targets for 2017/18 set out in its Business Transformation Plan. It will need to ensure that savings achieved are sustained in future years.

7 A five year financial strategy has been developed which will help the College to prepare for future challenges.

Governance and transparency

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

9 Risk management arrangements are robust and are actively monitored by members and senior staff. The Audit and Risk Assurance Committee receives regular updates on risk management.

Value for money

10 The College has now formally approved the closure of the Business Transformation Plan. The new Strategic Plan 2017-2022 and accompanying Blueprint builds on work started through the Business Transformation Plan.

11 Performance monitoring of progress towards achievement of the corporate aims and objectives requires to be further developed.

Introduction

1. This report summarises the findings arising from our 2017/18 audit of Edinburgh College.

2. The scope of our audit was set out in our Annual Audit Plan presented to the May 2018 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the College's annual report and financial statements
- consideration of the four audit dimensions that frame the wider scope of public audit 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 2017/18 have been:

- Obtaining an understanding of Edinburgh College's main financial systems and the related key controls
- an audit of the College's 2017/18 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's report *The 2016/17 audit of Edinburgh College*, published in April 2018
- consideration of the four audit dimensions.

4. Edinburgh College is responsible for preparing the annual report and financial statements that show a true and fair view and, for establishing effective arrangements for governance, propriety and regularity that enable the College to successfully deliver its objectives.

5. Our responsibilities as independent auditors are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the *Code of Audit Practice 2016* and supplementary guidance, and International Standards on Auditing in the UK.

6. As public sector auditors we give independent opinions on the annual report and financial statements. We also review and provide conclusions on the effectiveness of the performance management arrangements; suitability and effectiveness of corporate governance arrangements; the financial position; and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016* and supplementary guidance.

7. This report raises matters from the audit of the annual report and financial statements and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. Our annual audit report contains an agreed action plan at Appendix 1. It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. No non-audit fees have been charged and the 2017/18 audit fee of £29,500 as set out in our annual audit plan, remains unchanged. Furthermore, we are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. Our aim is to add value to Edinburgh College by providing insight and foresight, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

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 in due course.

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

Part 1

2017/18 annual report and financial statements

Main judgements

The financial statements of Edinburgh College for 2017/18 give a true and fair view of its financial position at the year end.

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

Audit opinions on the annual report and financial statements

13. The annual report and financial statements for the year ended 31 July 2018 were approved by the Board of Management on 11 December 2018. We reported, within our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and corporate governance statement were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

14. We have nothing to report in respect of misstatements or inconsistencies in the performance report, the remuneration and staff report or the corporate governance statement, the adequacy of accounting records or the information and explanations we received.

Submission of annual report and financial statements for audit

15. We received the unaudited financial statements on 24 September 2018, in line with our agreed audit timetable.

16. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided excellent support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

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

Materiality

18. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

19. Our initial assessment of materiality for the annual report and financial statements was carried out during the planning phase of the audit and was reported in our annual audit plan. Regarding 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 for audit, we reviewed our materiality calculations and updated these to reflect the reported outturn as shown in Exhibit 2 below.

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 2018.	£686,000
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 calculated performance materiality at 40% of overall materiality.	£274,000
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 was calculated at 3% of overall materiality	£20,500

Source: Audit Scotland

How we evaluate misstatements

21. There were two material amendments processed in the accounts during the audit. Total comprehensive income decreased by £11.3 million and total reserves decreased by the same amount. Both adjustments related to the accounting for the interim revaluation of buildings which was undertaken three years after the last full revaluation in 2015. These are discussed further below in Exhibit 3. There was no impact on the reported deficit for the year before other gains and losses.

22. The misstatements breached performance materiality levels and as a consequence we considered the need to undertake further audit testing. As the misstatements arose from isolated issues and no other similar issues were identified during our audit, we concluded that this was not indicative of systemic misstatements within the financial statements and no further audit testing was required.

23. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance after consideration of advice from senior officers and materiality. There were no other misstatements identified during the audit.

24. The accounts provided to audit included two prior year disclosures which were restated. Neither of these impacted on the primary financial statements. These related to:

- operating leases (Notes 9 and 21): some leased assets had been omitted from the 2016/17 financial statements
- adjusted operating position (Note 28): the total impact on operating position was used rather than depreciation (net of deferred capital grant release) in the prior year.

25. In addition, a number of presentational adjustments were identified and discussed with finance staff who agreed to amend the financial statements.

Significant findings from the audit in accordance with ISA 260

26. International Standard on Auditing (UK) 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 has been included.

27. These findings include our views about significant qualitative aspects of the College's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual report and financial statements
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3
Significant findings from the audit of financial statements

Issue	Resolution
1. Going concern The College reported an operating deficit before other gains and losses of £2.299 million in the Statement of Comprehensive Income for 2017/18 (compared with a deficit of £2.479 million in 2016/17). Current liabilities continue to exceed current assets (£5.96 million). The College would therefore be unable to meet its liabilities if they became due. We recognise that current liabilities include £3.3 million of deferred capital grants. The College acknowledges that the continuing financial pressures will require careful management.	The Scottish Funding Council (SFC) provided a letter of assurance to Edinburgh College in November 2016. The SFC 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. The College has exceeded its Business Transformation Plan (BTP) targets and is forecasting a surplus position for 2018/19. It has also met its 2017/18 student credit activity target. In view of the SFC's continuing financial support for the College and the successful achievement of financial and student activity targets this year, we agree with management's view that the adoption of the going concern basis for accounting is appropriate.

Issue	Resolution
2. Revaluation of buildings Land and buildings are revalued by an external independent valuer every five years with the previous valuation undertaken in July 2015. To comply more closely with the Financial Reporting Manual (FReM) the College commissioned an interim valuation of the four campus sites in July 2018 which resulted in an upward indexation of 15%. There was no change to the valuation of land. In the first draft of the accounts presented for audit review, the indexation uplift had been incorrectly applied to the cost of the asset. Accounting guidance (IFRS 13) requires that the indexation factor is applied to the net book value with all accumulated depreciation written back to the previous revaluation date. The unrealised surplus on revaluation as recorded in the Statement of Comprehensive Income was amended from £29.8 million to £16.1 million.	Following discussions management agreed to review the building valuations and as a consequence their valuation was reduced by £11.3 million. We reviewed the calculation and agreed with its basis and are satisfied that the valuation has been correctly accounted for.
3. Revaluation of buildings The Statement of Recommended Practice (SORP), paragraph 11.13, requires that on revaluation, any revaluation losses previously charged to the Statement of Comprehensive Income, should be reversed before the balance of the gain can be credited to the revaluation reserve. The College had previously charged revaluation losses of £2.5 million to the Statement of Comprehensive Income account which therefore had to be reversed. This accounting entry had not been processed in the first version of the accounts.	Management agreed to review the amounts transferred to the revaluation reserve. As a consequence, the amount transferred to the revaluation reserve was reduced by £2.5 million, with a corresponding credit of the same amount in the Statement of Comprehensive Income. There were also corresponding adjustments to the Balance Sheet, Cash Flow Statement and Statement of Changes in Reserves. We have reviewed the accounting entries and have agreed with its basis.
4. Statement of Changes in Reserves The accounts initially presented for audit review included the separate identification of the pension reserve (which was also reported separately on the face of the balance sheet). Accounting guidance (SORP) no longer refers to a separate pension reserve; guidance requires it to be included as an element of the income and expenditure reserve. The pension liability continues to be disclosed separately on the Balance Sheet.	The initial presentation was in line with previous years. The College took the view that more detailed disclosure would be beneficial in this area, considering the level of reserves. Management agreed with this revised presentation and adjusted the accounts. As a consequence, the pension reserve was netted off against the income and expenditure reserve which resulted in a decrease from £40.9 million to £31 million. Both the balance sheet and statement of changes in reserves were revised to reflect this amendment. We reviewed the revised presentation and agreed that it reflects the requirements of the SORP.

Source: Audit Scotland

Other matters

28. We have highlighted below a number of other matters identified during our audit.

Preparation of annual accounts

29. We have discussed with management a range of matters in relation to the presentation of the narrative included within the performance and accountability reports. We have recommended that the College undertake a quality review of the draft accounts prior to submitting for audit. This should clarify the aims of the narrative, enhance the structure and general coherence, and reduce duplication. SFC guidance should also be considered as part of this review. Recommendation 1 (refer appendix 1, action plan)

Non-current assets

30. Our audit work on non-current assets identified the following:

- in some instances, assets which were advised as having been disposed had no accompanying documentation to evidence their sale. These assets were all fully depreciated. Management advised that these smaller assets had formed part of larger historic asset purchases and had transferred as part of the College merger

- the College does not record intangible assets separately; intangible assets, for example software licences, have been recorded as part of the initial hardware purchase. There may be an impact on the useful lives.

31. We have therefore recommended that the College carry out an asset verification exercise to ensure the assets in the fixed asset register are still operational and to identify any intangible assets that need to be accounted for separately. Recommendation 2 (refer appendix 1, action plan)

Pension Schemes

32. Edinburgh College participates in two pension schemes for its staff: The Local Government Pension Scheme (LGPS) and the Scottish Teachers' Superannuation Scheme (STSS). Note 22 to the accounts provides the disclosures for these schemes in accordance with the SORP and Accounts Direction.

33. The most recent formal valuation for the LGPS scheme was 31 March 2017. The actuary for the LGPS carried out a projected valuation to 31 July 2018 to provide the figures for the accounts. This projection resulted in the College's share of assets and liabilities decreasing by £12.114 million (which is reported in the Balance Sheet) and an actuarial gain of £14.27 million (2016/17 £5.473 million) has been reported in the Statement of Comprehensive Income.

34. We have reviewed the actuarial assumptions used for the valuation and are satisfied that they appear reasonable and in line with assumptions used by other public sector actuaries over the same period.

Follow up of prior year recommendations

35. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in Appendix 1. They are identified by the prefix b/f (brought forward).

36. Eight agreed actions were raised in 2016/17. Of these, six have been fully implemented and two are not actioned or have only partly been actioned.

37. Overall the College has made good progress in implementing these actions. For actions not yet implemented, revised responses and timescales have been agreed with management, as set out in Appendix 1.

Part 2

Financial management

Main judgements

The Statement of Comprehensive Income for the period to 31 July 2018 records an operating deficit before other gains and losses of £2.299 million (£2.479 million in 2016/17).

In accordance with Scottish Funding Council guidance, the College has calculated its 'adjusted operating position' to be a surplus of £0.416 million in 2017/18, which compares well with the £2.5 million deficit in 2016/17.

Edinburgh College has appropriate budgetary monitoring and control arrangements that support effective scrutiny of the College's finances.

Financial performance in 2017/18

38. Financial performance has been assessed in three ways in accordance with SFC guidance. Paragraph 39 below refers to the performance against resource expenditure limits, paragraph 40 refers to the deficit recorded in the Statement of Comprehensive Income and paragraph 43 refers to the calculated adjusted financial position in accordance with SFC guidance.

39. The College reports its financial performance over the academic year to 31 July. However, it must also meet the resource expenditure limits set by the Scottish Government Advanced Learning and Science Directorate through the Scottish Funding Council (SFC). These require the College to break even as at 31 March 2018 against its agreed budget. Edinburgh College recorded underspends against its resource limits for the year to 31 March 2018 as shown in Exhibit 4.

Exhibit 4

Resource limit performance as at 31 March 2018

Performance against resource limits set by SFC	Resource Limit (£m)	Actual (£m)	Underspend (£m)
Total revenue resource limit	**55.332**	**54.509**	**0.823**
Total capital resource limit	**3.285**	**3.054**	**0.231**
Total Cash requirement	**58.617**	**57.563**	**1.054**

Source: Edinburgh College Annual Resource Return Q4 2017-18

40. Edinburgh College reported an operating deficit before other gains and losses in the Statement of Comprehensive Income for the period to 31 July 2018 of £2.299 million (a deficit of £2.479 million was reported in 2016/17) as illustrated in Exhibit 5. Revaluation gains of £2.5 million resulted in a surplus for the year of £0.162 million. It should also be noted that the College received an additional

£2.9 million in SFC funding in 2016/17 to assist their financial position. No equivalent funding was received in 2017/18.

Exhibit 5
Performance in 2017/18 compared to the previous year

Performance compared to the previous year	2017/18 £ million	2016/17 £ million	Movement £ million
Income	66.252	67.676	(1.424)
Expenditure	(68.551)	(70.155)	1.604
Deficit before other gains and losses	**(2.299)**	**(2.479)**	**(180)**
Gains on Revaluation	2.461	-	2.461
Surplus/(Deficit)	**0.162**	**(2.479)**	**2.641**

Source: Edinburgh College annual report and financial statements 2017/18

41. Income in 2017/18 decreased by £1.424 million mainly due to:

- the College receiving a one-off advance of £2.9 million in 2016/17 to assist the implementation of the Business Transformation Plan. There was no comparable grant in 2017/18
- voluntary severance scheme grants received in 2017/18 were £0.576 million compared with £1.775 million in 2016/17
- an increase in SFC recurrent grant of £1.716 million and an increase of £0.570 million in other SFC grants offset the decreases in other areas.

42. Expenditure decreased by £1.604 million due primarily to:

- a decrease of £1.286 million in exceptional staff costs, which mainly relate to voluntary severance schemes
- a decrease of £0.351m in other operating expenses.

43. The College accounts also include an analysis of the adjusted operating position, as required by the SFC's Accounts Direction. This disclosure provides an analysis of the College's current financial position by removing items such as pension and depreciation adjustments. Exhibit 6 below shows that this results in an adjusted surplus of £0.416 million, compared with an adjusted deficit of £2.474 million (restated from £2.544 million) in 2016/17.

Exhibit 6

Adjusted financial position in 2017/18 compared to the previous year

Adjusted financial position compared to the prior year	2017/18 £ million	2016/17 £ million	Movement £ million
(Deficit)	(2.299)	(2.479)	0.180
Depreciation (net of deferred capital grant release)	2.060	2.235	(0.175)
Non-cash pension adjustments	2.156	2.198	(0.042)
Early retirement provision increase	0.040	0.070	(0.030)
Exceptional Income	0	(2.900)	2.900
Revenue funding allocated to loan repayments and other capital items	(1.541)	(1.598)	0.057
Adjusted operating surplus / (deficit)	**0.416**	(2.474)*	2.890

Source: Edinburgh College accounts 2017/18 * restated from £(2.544) million to include the movement on the early retirement provision

44. During 2017/18 the College completed and closed the projects underpinning their BTP, which had been launched in April 2016. The closure of these projects was approved by the SFC. The BTP contained a programme for financial sustainability and outlined a series of expected savings across the period up to 2018/19. The 2017/18 budget was set in context of the plan which anticipates a small surplus by 2018/19.

45. The 2017/18 reported position compares to a budgeted deficit of £0.546 million per the BTP. The BTP excludes the effects of pensions adjustments and changes in the annual leave provision. The performance report (page 8) notes that by excluding these items the College recorded a surplus of £0.2 million in 2107/18.

46. The level of SFC recurrent grant is based on the amount of learning that the College delivers. This is measured in units called ‘credits’ which equate to 40 hours of learning. The College was set a target by the SFC of 187,742 credits for 2017/18 and reported delivery of 192,990. The College’s internal auditor carries out checks to confirm the accuracy of the reported activity/credits.

47. The College continues to report an improved financial position. However careful management of expenditure and income together with the achievement of continuing savings will be required in order to maintain progress towards the achievement of the financial plan.

Budgetary processes

48. Senior management and Board members receive regular and timely budget 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. Senior management and members receive regular, timely and up to date financial information on the College’s financial position.

49. We concluded that the College has appropriate budgetary monitoring and control arrangements that support effective scrutiny of the College’s finances.

Systems of internal control

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

50. As part of our audit we considered key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Edinburgh College has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

51. Our findings were included in a management audit report presented to the Audit and Risk Assurance Committee in October 2018. We identified some areas for improvement in the control environment. We concluded that the controls put in place by management are appropriate and operating effectively. No significant internal control weaknesses were identified during the audit which could affect the College's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

52. During the financial statements audit of trade receivables balances we identified a control inconsistency in write off procedures. The Finance Procedures document states that only the Head of Finance can authorise the write off of bad debts. We found one instance where a write off had been approved by a Finance Manager in the Head of Finance's absence. Recommendation 3 (refer appendix 1, action plan)

ICT controls

Information and Communications Technology – organisation, strategy and governance

53. Edinburgh College's ICT function is spread across three management areas:

- two IT teams in IT and Estates Services are responsible for the technical implementation of desktop support and data security and networking infrastructure
- a Business Solutions Development team in Corporate Development is responsible for application systems and websites
- the Management Information Systems team in Curriculum Planning and Performance are responsible for providing support for student related application systems.

54. Due to the breadth of the IT organisation structure it may be challenging to ensure that proper security and system maintenance standards are implemented across all areas.

55. We are aware that a number of legacy systems which were carried over from before the merger around six years ago continue to be supported (mainly holding historical data). For a large number of these systems it is unknown how much use is still made of them. The information asset audit which is currently underway (due to complete in early 2019) should establish a baseline of information and data need. The completion of a full suite of standard secure operating procedures should help establish common ground and vocabulary for systems, including establishing system owners, resource needs (computing or financial), back-up requirements, change management procedures, and ongoing support.

56. The Digital Strategy prepared in 2017 sets out how the College intends to leverage digital tools and techniques to communicate with its stakeholders (students, staff, the wider public) and the technological and business transformation that will be required to support this. We noted that the strategy requires to be updated in line with the College 'Blueprint' which was approved by the Board in September 2017. The 'Blueprint' sets out goals such as digital inclusiveness and business intelligence in general terms. Further detail is needed to allow the College to assess the funding and resource implications of its digital needs and work is underway in several areas to integrate technology into the

business objectives of the College. We are aware that the College is taking action to address the next stage of this project.

57. In recent years, the oversight and governance of the IT function was provided by the Policy and Resources Committee. This Committee has responsibility for the IT policy, management and planning together with a range of other wide ranging non-ICT functions. We are therefore pleased to note that given the importance of ICT across the business that the 'Connect Group", which in the past provided the operational oversight will be resurrected and will be the driver for progressing and monitoring the Digital Strategy.

Cyber resilience

58. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which required all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. The College obtained its Cyber Essentials Plus accreditation in August 2018. This confirms the function is well-placed to defend the College's information against malicious attacks and to build upon this accreditation going forward. A cyber incident response plan has recently been agreed. However, it is recognised that should a full-blown attack or incident occur, the IT function would lack capacity and capability to recover quickly. This is in part due to a backlog of training and skills development. We have been advised that management are intending to address the training needs.

59. The College does not currently carry out penetration testing (both internal and from the outside) of their data networking infrastructure. The use of penetration testing is being considered after known improvement requirements have been addressed. Recommendation 4 (refer appendix 1, action plan)

Business continuity planning

60. The IT department has business continuity and disaster recovery plans in place. There are also several other departmental business continuity plans. However, there is no single overarching business continuity plan for the College. An overarching plan should consider priorities in key services and systems that need to be recovered first, by agreement with all stakeholders. We are also aware that to date, only table-top testing of business continuity plans has taken place. Both cyber incident response plans and business continuity plans would benefit from more detailed scenario testing under live conditions. Recommendation 5 (refer appendix 1, action plan)

Financial capacity

61. We have considered the College's financial capacity and have concluded that there are suitably qualified and experienced officials leading the finance team, and the team has sufficient financial skills, capacity and capability to provide sound financial management.

Part 3

Financial sustainability

Main judgements

The College exceeded the financial targets for 2017/18 set out in its Business Transformation Plan. It will need to ensure that savings achieved are sustained in future years.

A five year financial strategy has been developed which will help the College to prepare for future challenges.

Financial planning

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

62. 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. We reviewed the College's financial planning processes and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

63. The College is substantially funded through SFC grants (77% of 2017/18 income) and this funding is set on a year-on-year basis by the SFC. Since 2015/16 the College has received an additional £7.85 million in funding from the SFC to support the BTP and the voluntary severance schemes as it worked to address the financial challenges that it faced post-merger. £4.8 million was received in respect of transformation funding and £3.05 million was received in respect of funding for voluntary severance. £2.9 million of this additional funding (received in 2016/17) was a cash advance which will be repayable to the SFC through adjustments to future grant funding.

64. In addition to SFC funding, the College is financed by a long-term loan facility from Lloyds bank; the balance at 31 July 2018 as reported in Note 16 (Borrowings) in the financial statements is £10.149 million. This loan was arranged by Jewel and Esk College prior to the merger that created Edinburgh College in 2012. The loan has fixed and variable rate elements and is due to be repaid in 2034. In 2017/18 the College repaid £0.436 million in capital and £0.594 million in interest with similar amounts due to be paid next year. The College currently receives £0.8 million of annual debt servicing funding from the SFC to assist with these repayments.

65. Exhibit 7 shows that savings targets per the BTP were achieved in the three years to the end of 2017/18 with an excess of £0.46 million reported. Savings from the three voluntary severance schemes which ran in 2015/16 and 2016/17 fell below the target but non-pay savings made up the shortfall, in particular from targeted cost management in areas such as estates, energy and IT.

Exhibit 7
Business Transformation Plan savings

Savings for future starting budgets	2015/16 £ million	2016/17 £ million	2017/18 £ million	2018/19 £ million
Forecast workforce savings (voluntary severance)	1.03	3.22	0.00	0.35
Forecast other savings	0	0.38	0.45	0
Forecast savings per BTP	1.03	3.60	0.45	0.35
Accumulated forecast savings per BTP	**1.03**	**4.63**	**5.08**	**5.43**
Actual workforce savings (voluntary severance)	1.07	2.48	0.00	0.89
Actual other savings	0	1.34	0.65	0.40
Total actual savings	1.07	3.82	0.65	1.29
Total accumulated actual savings	**1.07**	**4.89**	**5.54**	**6.83**
(Under)/over achievement of actual savings vs forecast	**0.04**	**0.26**	**0.46**	**1.4**

Source: Management Accounts to July 2018, Edinburgh College

66. A fourth voluntary severance scheme was initiated in 2017/18 with forecast savings per the BTP of £0.35 million. Funding provided in 2016/17 which had not been drawn down was applied to this fourth scheme. Management has advised that savings of £0.89 million will be achieved from this scheme and 2018/19 budgets have been reduced accordingly. The four schemes to date have delivered savings of £4.44 million against a BTP target of £4.6 million; other savings of £2.29 million reported in the July 2018 management accounts have increased total savings over the four year period to £6.83 million, £1.4 million above the BTP target. Management is confident that these savings are recurrent. There remains a risk that the cost base has not been reduced permanently. Recommendation 6 (refer appendix 1, action plan)

67. Ongoing budget pressures within the further education sector mean that it is crucial for the College to have plans in place to ensure financial sustainability in the longer term. This is particularly important given that there is likely to be further significant pressure on Colleges to cut costs and generate new revenue streams.

68. The College has prepared a financial forecast for the six-year period from 2017/18 to 2022/23 in accordance with SFC requirements. This provides the Board with a basis for monitoring financial performance over the medium to longer term. The three years 2018/19 to 2020/21 take account of the reduction in funding from the SFC to repay the £2.9 million additional grant received in 2016/17 (refer to paragraph 63 above). This is anticipated to result in a breakeven position in 2018/19 and deficits of £1.2 million in 2019/20 and 2020/21. Management has identified a range of annual savings which will be required from 2019/20 to 2022/23 of between £0.250 and £0.960 million. The adjusted operating position records a surplus in each of the six years.

69. We reported last year on the potential impact of national pay bargaining on Edinburgh College's future budgets. The outcome was announced in October 2018 and applies to staff in post at 1 April 2018. The College is unable to directly influence nationally negotiated pay increases, whether these are around harmonisation or cost of living. Pay costs are the largest element of the College's cost base (68% of the College's total expenditure in 2017/18) and this national position makes it intrinsically difficult for the College to forecast.

70. Colleges do not have any extra funding for an additional 'cost of living' pay offer. Therefore, the additional pay offer must be found by colleges making extra efficiency savings. For 2018/19 the College will receive additional SFC funding of £2.245 million in support of the costs of implementing the national pay award.

2017/18 financial position

71. As at 31 July 2018 the College had total reserves of £76.5 million, representing a revaluation reserve of £43 million and an income and expenditure reserve of £33.5 million. Overall the balance on reserves has increased by £30.5 million since last year largely due to the revaluation of buildings (£16.1 million) and the actuarial pension gain (£14.3 million).

72. 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. Last year we recommended that management should review the information provided in relation to reserves. We have noted that management has yet to address this recommendation. Recommendation 7 (refer appendix 1, action plan)

73. The College's Balance Sheet at 31 July 2018 records:

- an increase in fixed assets following revaluation (£16.1 million)
- a reduction in the pension liability (£12.1 million) following an actuarial valuation at the year-end
- a reduction of £3.8 million in current assets which is largely due to the cash position at the year-end
- creditors (both within one year and more than one year) have reduced by £5.8 million due to factors including the deployment or return of SFC funds noted above.

74. The College's financial position has improved due to the successful implementation and closure of the BTP during 2017/18. The outcome of four voluntary severance schemes and close financial management of operational costs means that the College is now in a period of greater financial stability. It has improved its databases and intelligence in support of management decision-making and this will assist the College in facing future financial challenges.

75. The Board of Management approved the College's 2018/19 budget in June 2018. The College is budgeting for a surplus of £0.5 million (which is in line with the BTP forecast) before the planned repayment of £0.5 million of the 2016/17 SFC cash advance of £2.9 million. This will result in a breakeven position.

76. The main risk which could impact on the budget for 2018/19 is pressure on staff costs from national pay bargaining and harmonisation which needs to be managed while ensuring the staff establishment (after four voluntary severance schemes) is able to deliver the curriculum in terms of capacity and skills. There are continuing risks for the College in meeting student credit targets and managing operational costs within the funding limits available.

77. In addition, the next Scottish Teachers' Superannuation Scheme actuarial valuation is due to be published imminently. This is likely to impact on future

employer contribution rates and could have a significant impact on the achievement of the College’s financial objectives.

Workforce planning

78. Edinburgh College’s BTP included a workforce development and structure programme which has been carried forward through the Blueprint Workforce Development Programme. This recognises that the workforce will continue to change over the medium term and the College must work to retain a skilled, flexible and motivated workforce to deliver its curriculum in the years to come.

79. Last year we recommended that the College continue to monitor staffing levels following the voluntary severance schemes which saw over 130 staff leaving. Close monitoring is being undertaken by management with monthly reports being provided to management and updates provided to each meeting of the Policy and Resources Committee. We consider that the processes will facilitate effective workforce planning.

EU withdrawal

80. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

81. Edinburgh College has started to consider the potential consequences of Brexit on its operations and has identified a number of risk areas such as reduced numbers of commercial and international students and related income, the loss of European Social Fund income and changes to recruitment and procurement processes. The College has incorporated the associated risks in its top level risk register for on-going scrutiny.

Part 4

Governance and transparency

Main judgements

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

Risk management arrangements are robust and are actively monitored by members and senior staff. The Audit and Risk Assurance Committee receive regular updates on risk management.

Governance arrangements

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.

82. The governance of the College is centred around the Board of Management, with six other supporting committees including the Audit and Risk Assurance Committee (ARAC) and the Policy and Resources Committee.

83. There have been significant changes to the membership of the Board of Management in 2018, with a new Chair of the Board appointed on 1 March, and a new College Principal appointed in September 2018. The Deputy Principal also left the College in August 2018. His duties have been absorbed into other existing senior roles. This leaves the College with a more compact management structure.

84. The ARAC is responsible for scrutiny of the internal control framework within the College. The ARAC completes an annual self-evaluation as part of the Board of Management's annual evaluation activity. This allows them to reflect on their practices and identify any areas for improvement.

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

Transparency

86. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.

87. We reported in 2016/17 that Board of Management meetings are not held in public. However, we noted that the minutes and papers for these, and other standing committee meetings are publicly available on the College's website, with the exception of some items which are considered sensitive.

88. Edinburgh College continues to improve transparency in its annual report and financial statements. For example, further clarity was provided around the information provided within the performance and accountability reports.

89. Overall, we concluded that the Board is transparent in its publication of minutes and papers. Management should review Edinburgh College's openness and transparency against best practice and the Scottish Government's values of Open Government which aim to foster openness, transparency and citizen participation.

90. As part of our financial statements audit we reviewed the disclosures made in Note 23 for related party transactions. The SORP extends the definition of a related

party to include key management personnel. The note was amended accordingly which improved the transparency of reporting.

Risk management

91. We reviewed the arrangements for managing risk within the College. The Risk Management and Assurance Group is responsible for assessing the top risks facing the College and developing strategies to manage these risks and report back to the ARAC. 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.

92. 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.

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

Internal audit

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

95. The Board's internal audit function is carried out by Scott Moncrieff. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

96. We reviewed the internal audit arrangements in accordance with International Standard on Auditing 610 (Using the work of Internal Auditors), to determine the extent we could rely on the work of internal audit. Scott Moncrieff's Internal Audit department also had an external review of their conformance with PSIAS in July 2018 with no major issues found.

97. We have reviewed the reports prepared by internal audit and assessed their impact on our audit approach. We concluded that we could place reliance on aspects of their Review of College compliance with SFC guidance on student activity. We also took cognisance of their reviews on business continuity and workforce management.

Early retirement / severance costs

98. The remuneration and staff report notes that there were 23 exit packages agreed during 2017/18 at a cost of £0.6 million. We reviewed a sample of these packages and concluded that that the College followed SFC guidance.

Corporate governance statement

99. Our financial statements audit included a review of the corporate governance statement in the annual report and financial statements. We are satisfied that the governance statement complies with the guidance issued by the SFC and with the Scottish Public Finance Manual (SPFM) and that the disclosures are consistent with information gathered during our audit work.

100. Several risks are set out in the governance statement. These include issues such as financial sustainability and the impact of Brexit. The statement also makes reference to regular reports from internal audit findings and refers to the overall conclusion in internal audit's annual report as giving 'reasonable assurance'.

101. We concluded that the corporate governance statement complies with the guidance issued and based on our knowledge and work performed presents an accurate picture of the governance arrangements in place.

National Fraud Initiative

102. 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 irregularity.

103. We reported on the outcomes from the 2016/17 NFI exercise in our 2016/17 annual audit report. Edinburgh College has recently submitted data for the 2018/19 exercise and we will monitor progress and report on this going forward.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

104. The Board has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. There are established procedures for preventing and detecting bribery and corruption.

105. We concluded that the College has appropriate arrangements in place for the prevention and detection of bribery and corruption. These are regularly reviewed to ensure they remain relevant and current. We are not aware of any specific issues that we require to bring to your attention.

General Data Protection Regulation

106. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act (DPA) 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the DPA and has introduced new and significantly changed data protection concepts.

107. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the Board incurring significant fines.

108. An Information Manager has led the College’s preparations for GDPR compliance. The senior management group and Board have received regular updates on preparations for full compliance throughout the year and internal audit is due to carry out a review of preparations which will be reported to the ARAC early next year.

109. We have monitored the College’s activity in preparing for GDPR and are satisfied that it has been pro-active, working with other colleges to share policies and procedures.

Part 5

Value for money

Main judgements

The College has now formally approved the closure of the Business Transformation Plan. The new Strategic Plan 2017-2022 and accompanying Blueprint builds on work started through the Business Transformation Plan.

Performance monitoring of progress towards achievement of the corporate aims and objectives require to be further developed.

Performance management

110. The Financial Memorandum between SFC and fundable bodies in the college sector requires the College to:

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

Value for money is concerned with using resources effectively and continually improving services.

111. Securing the economical and effective management of Edinburgh College's resources and expenditure is the responsibility of the Board of Management.

112. The College has focussed on achieving its BTP 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.

113. 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. In August 2018, the Board formally approved the closure of the BTP.

114. Public bodies are required to identify and report performance measures to demonstrate their effectiveness and efficiency in service delivery and the benefits they provide to the public.

115. The performance report included within the annual report and financial statements provides a range of information covering the activities of Edinburgh College. Looking ahead, Edinburgh College should consider how it will demonstrate an 'Outcomes based approach' to corporate and business planning, and effectively demonstrate their contribution to the delivery of the government's Purpose and National Outcomes, as set out in the National Performance Framework.

116. The information provided in the annual report could be enhanced through clearer assessment of whether the College priorities are being delivered and

whether the aims are being achieved. A key component of this approach requires an effective performance management reporting system.

117. Corporate performance reporting was discussed by the Board in August 2018; the need for draft performance measures aligned to the College's strategic aims were considered and it is anticipated that the approach will be agreed at the Board meeting in December 2018. Edinburgh College should continue to build on its existing approaches to managing and publicly reporting organisational performance, demonstrating the contribution this makes to the Scottish Government's outcomes.

Strategic Plan 2017-22

118. 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 is being managed through the Edinburgh College transformation portfolio which consists of five programmes which are aligned to the strategic aims, and 19 projects, building on work started through the BTP.

119. An update was provided to the Board in August 2018 which outlined progress made on the delivery of its objectives. In relation to the Blueprint, members were advised that all projects have moved or were about to move onto business case stage meaning that progression to the project initiation stage (stage 2) was underway. The delivery of the project is the next stage to be achieved.

120. Governance arrangements are in place to for the delivery of the Blueprint and financial resources are being earmarked to assist the College to progress with the achievement of the projects. Through the programme management office, the BTP was well managed and monitored. We shall continue to monitor progress towards achievement of the Blueprint and its related projects.

121. Edinburgh College achieved its student activity target for credits in 2017/18. The College delivered 192,990 credits against a target of 187,742 credits. This continues the positive results achieved in 2016/17 where the target was exceeded by 2,950 credits, for the first time since merger. For 2018/19 the SFC has set a target of 187,969 credits. The College will need to sustain and build upon the progress made in 2017/18 if it is to again meet its targets in 2018/19.

National performance audit reports

122. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, we published several reports which are of direct interest to Edinburgh College. These are outlined in Appendix 3 accompanying this report.

123. The College's ARAC considers national reports where relevant, for instance, members discussed the Scotland's Colleges 2017 national report during the year. The Scotland's Colleges 2018 report which was published in June 2018 will be considered by the ARAC in due course.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Annual report** The draft accounts received initially for audit review contained elements of duplication and on occasion lacked structure. We also discussed amendments to more fully comply with guidance. **Risk** There is a risk that the annual report does not provide a compliant and complete narrative to accompany the financial statements.	We recommend that the College undertake a quality review of the draft annual report and financial statements prior to audit review. This should improve the quality of the narrative which support the financial statements and should ensure further compliance with guidance. Paragraph 29	Agreed. Narrative was compiled from many contributors. Accounts submitted to auditors were reviewed by several senior employees. This area can always be improved but is also subjective. We will include additional non-Finance review in future years Head of Finance 30/08/2019
2	**Fixed asset records** In some instances there was an absence of evidence related to asset sales. We also noted there was no separate identification or recording of intangible assets. **Risk** There is a risk that asset records are incomplete to support items in the fixed asset register. There is a risk that intangible fixed assets are not being separately identified and accounted for in compliance with the SORP.	We recommend that the College carry out an asset verification exercise to ensure the assets in the fixed asset register are still operational and to identify any intangible assets that need to be accounted for separately. Paragraph 31	Agreed. There is insufficient detail supporting many old assets (mostly pre-merger) often capitalized as part of a project. It is important to dispose of assets no longer in use to avoid cost and accumulated depreciation being overstated. The College will look at reviewing asset registers in conjunction with Heads of Departments to ensure they are as accurate as possible Head of Finance 31/7/2019
3	**Bad debt write-offs** Write-offs can only be authorised by the Head of Finance. We found one instance where a write was approved by the Finance Manager in the absence of the Head of Finance.	We recommend that procedures for authorising bad debt write-offs are reviewed and authorisations are clarified. Paragraph 52	Agreed. The College will review and update procedures. Head of Finance 30/11/2018

No.	Issue/risk	Recommendation	Agreed management action/timing
	Risk There is a risk that debts are written of inappropriately and contrary to agreed procedures.		
4	**Cyber resilience** It is recognised that should a full-blown cyber-attack or incident occur, the IT function would lack capacity and capability to recover quickly. This is in part due to a backlog of training and skills development. The College does not currently carry out penetration testing (both internal and from the outside) of their data networking infrastructure. **Risk** There is a risk to the security and integrity of IT systems and data from cyber-attack.	We recommend that the College address any training need and undertakes penetration testing of its data networking infrastructure. Paragraphs 58,59	Agreed. The College acknowledges the need for updating training on cybersecurity for key staff. Part of National Framework will address this for all Colleges. 31/3/2019 As part of our cyber-security programme in 2018, the college has put in place automated penetration testing systems to scan for vulnerabilities in our private and public networks. We are currently working to remediate the findings from that piece of work. As our information asset management and cyber-security detection capabilities improve in 2018/2019, we expect to begin targeted third-party penetration testing or external security researchers to report vulnerabilities for a reward programme. 30/06/2019 Head of IT
5	**Business continuity planning** There is no single overarching business continuity plan for the College. An overarching plan should consider priorities in key services and systems that need to be recovered first. There has been no detailed scenario testing under live conditions undertaken on either cyber incident response plans and business continuity plans. **Risk** There is a risk to College IT systems and data from events that could disrupt and/or damage operations.	We recommend that the College develops an overarching business continuity plan which covers key services and systems and considers undertaking detailed scenario testing. Paragraph 60	Agreed. This was recommended as part of an internal Business Continuity review Head of Corporate Development 31/5/2019

No.	Issue/risk	Recommendation	Agreed management action/timing
6	**Financial planning** Savings have been achieved in excess of the BTP targets. Savings from voluntary severance have been less than planned. Other savings were recognised during the year. **Risk** 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. Paragraph 66	Agreed. Will be monitored through regular reporting including management accounts Chief Operating Officer 31/7/2019
7	**Financial position** As reported in 2016/17, 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. **Risk** 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. Paragraph 72	Agreed. The College will attempt to do this. However difficult due to consolidation of legacy Colleges. It will depend on level of detail available. Head of Finance 30/11/2018
Follow up of prior year recommendations			
b/f 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.	Audit work this year has confirmed improvement in this area. However, we have identified further areas for improvement in order to comply more fully with the guidance. We also recommended that a quality review is undertaken prior to completion. *Partially implemented - see also action plan 1 above*
b/f 2	**Untaken leave accrual** The untaken leave accrual did not include the required employer's costs nor did it	The College should provide evidence to back up its estimate of part-time support staff untaken leave. The accrual should include all required costs.	Audit testing of the untaken leave accrual this year was satisfactory. *Action completed*

No.	Issue/risk	Recommendation	Agreed management action/timing
	include costs relating to part-time support staff. There is a risk that expenditure is understated resulting in a worsening financial position.		
b/f 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 matter is still outstanding. *Not implemented – see action plan 7 above*
b/f 4	**National Fraud Initiative (NFI)** 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 has reported progress and outcomes on the 2016/17 NFI exercise to the Audit and Risk Committee. We have reviewed the College's participation in the 2018/19 NFI exercise and are satisfied that data has been uploaded on time. *Action completed*
b/f 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.	The College must continue to deliver recurring savings. Additional savings must be identified to offset the reduction in planned voluntary severance achieved.	Savings targets to date have been met with additional savings of £0.110 million achieved. *Action completed*
b/f 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	The College should continue to monitor its staffing levels against the requirements of the curriculum and the achievement of learning targets.	We are satisfied that the College has met its learning targets this year and continues to monitor its workforce requirements through the new Strategic Plan and Blueprint. *Action completed*

No.	Issue/risk	Recommendation	Agreed management action/timing
	supported by the appropriate staffing levels and experience. In addition there is a risk that learning targets are not achieved if the appropriate staff are not retained.		
b/f 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.	We have reviewed the register of interests and are satisfied that it has been kept up to date and has been extended this year to include senior management. *Action completed*
b/f 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.	We have reviewed Internal Audit work in this area which has confirmed that the College has met its targets this year. *Action completed*

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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and financial statements and those relating our wider responsibility under the Code of Audit Practice 2016.

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 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. Focused testing of accruals and prepayments. Focused testing of accounting adjustments at the year-end. Evaluation of 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 £68 million in 2016/17, of which £52 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. The extent and complexity of income means that there is an	SFC grant income reconciled to the funding allocation. Consider findings raised by internal audit on their review of student activity and any potential impact on our audit approach. Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. Consider findings raised by internal audit on their review of income and debtors. systems and any potential impact on our audit approach.	No issues were identified through our income testing which would indicate fraud over income.

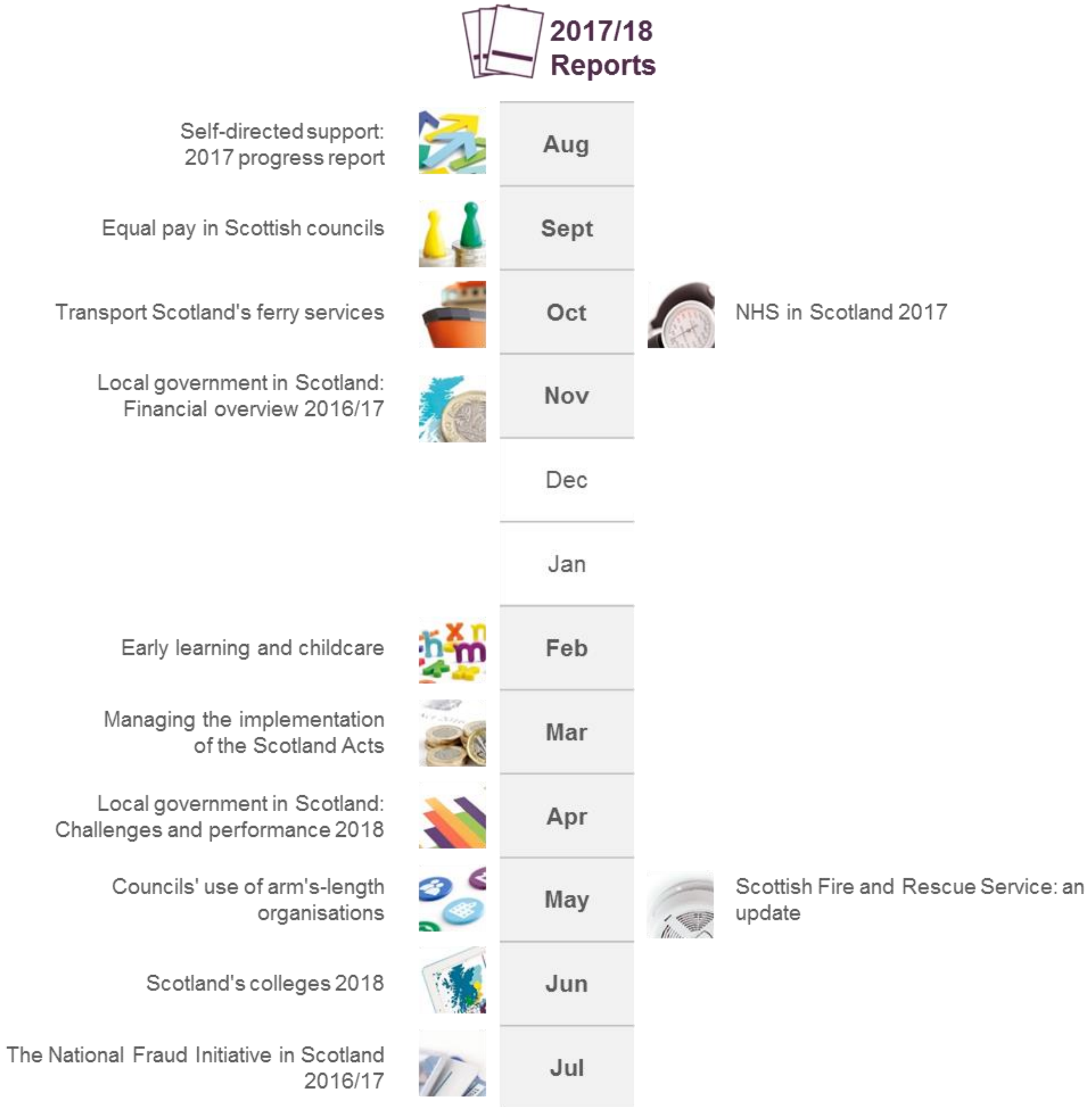
	Audit Risk	Assurance Procedure	Results and Conclusions
	inherent risk of fraud which we are unable to rebut.		
3	**Risk of fraud over expenditure** Practice Note 10 requires auditors to focus their consideration of the risk of fraud and error on expenditure as most public sector bodies are net expenditure bodies. Edinburgh College recorded an excess of expenditure over income of £2.5 million in 2016/17 with gross expenditure totalling £70 million. The extent and complexity of expenditure means that there is an inherent risk of fraud.	Detailed testing of significant expenditure transactions at the year end including cut off testing. Analytical procedures on expenditure. Review of accruals and provisions. Consider findings raised by internal audit on their review of purchasing and creditors systems and any potential impact on our audit approach	No issues were identified through our expenditure testing which would indicate fraud over expenditure.
4	**Financial position/ going concern** The College reported a deficit of £2.5 million in 2016/17 and is forecasting a deficit of £0.5 million for 2017/18. In addition, the financial statements recorded a net current liabilities position. The College continues to face a range of financial pressures including the need to meet the costs arising from national pay awards and increased employer pension contributions. The financial position at the end of 2017/18 is dependent on a range of outcomes which include: • reducing expenditure and meeting savings targets (from voluntary severance schemes and other sources) • achieving student activity targets • managing cash balances effectively • achievement of Business Transformation Plan (BTP) targets.	Monitor progress on the financial position: achievement of budget and student activity targets. Monitor completion of the BTP. Consider findings raised by internal audit on their review of student activity and any potential impact on our audit approach. Cut-off testing to ensure expenditure and income has been accounted for in the correct financial year.	We have commented on the College's financial position and going concern in this report, noting an improved financial position and the achievement of student activity targets. (Parts 1, 2 and 3) The BTP projects have been completed and planned savings achieved. We have noted that the College will continue to face financial challenges but it has improved databases in place that will facilitate management decision-making as it aims to deliver financial sustainability going forward.

Audit Risk	Assurance Procedure	Results and Conclusions
There is a risk that the anticipated financial outcome is not achieved		
5 Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of the following material account areas: non-current assets (2016/17 - £146 million), the net pension liability under FRS 102 (2016/17 - £22 million) and provisions (2016/17 - £5 million). This subjectivity represents an increased risk of misstatement in the financial statements.	Review of the work of an expert for the professional valuer. Review of accounting policies to ensure they are appropriate and properly applied. Focused substantive testing of year-end balances. Assess the reliability, professional competence capability and objectivity of the actuary as experts on whom reliance is placed. Review of PwC report assessing actuarial processes.	A review of both the actuary and the professional valuer was carried out. The actuarial assumptions used in calculating the pension figures were assessed against the PwC report for consistency with other public sector organisations and these were found to be reasonable. The professional competence and capability of both experts was also assessed through our audit work, and the judgements used were found to be sound, which allowed us to place reliance on these judgements. We refer in Part 1 of this report to accounting errors in the revaluation of assets.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
6 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.	Review committee minutes and reports monitoring the financial position through the year, specifically any revisions to the budget. Carry out detailed 'cut off' testing to confirm expenditure and income has been accounted for in the correct financial year.	We have reviewed committee minutes and reports and are satisfied that the College's financial position has been closely reported and monitored throughout the year. We have no concerns with the results of our cut-off testing. See Part 2 of this report.
7 Financial sustainability The College continues to be dependent on SFC support in order to meet its liabilities. Financial sustainability will require achievement of: • the agreed target rate of student activity • effective management and delivery of the curriculum • voluntary severance scheme targets • BTP targets	Monitor progress on the closure of the BTP. Monitor progress on achievement of financial targets. Monitor student recruitment and retention activity. Monitor progress of longer term financial planning.	See Part 3 of this report. We have commented on the College's financial position, noting an improved financial position and the achievement of student activity targets. The BTP projects have been completed and planned savings achieved. We have noted that the College will continue to face financial challenges but it has improved databases in place that will facilitate management decision-making. We have reviewed the five year financial plan and noted the

	Audit Risk	Assurance Procedure	Results and Conclusions
	• effective cash management. 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.		forecasts include known financial pressures and risks.
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. The College Principal has announced that she intends to retire from September 2018. A new Chair of the Board was appointed in March 2018, replacing the current chair who had held the position since incorporation in 2012. With all this change ongoing, there is a risk that: • the achievement of the BTP is impacted • leadership capacity and momentum is affected • 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.	Review Audit and Risk Assurance Committee self-appraisal and annual review outcomes Review processes for ensuring register of interests is up to date. Review compliance with the SFC guidance on good practice in College governance. Monitor progress on the BTP including workforce planning. Ongoing review of College Board and Committee papers. Monitor the effectiveness of governance arrangements through attendance at the Audit and Risk Assurance Committee.	See Part 4 of this report. The ARAC discussed its annual review at the October 2018 meeting; the final outcome will be presented at the November 2018 meeting. We reviewed the process in place to ensure the register of interests is up to date. We have no matters to report and we noted that the register has been extended to senior management this year. As part of our audit work we have confirmed that the College complies with the SFC guidance on good practice in College governance. We have commented in this report that the BTP, including workforce planning, has reached completion stage with the closure of projects and the implementation of a new Strategic Plan and Blueprint which will take improvements forward.

Appendix 3

Summary of national performance reports 2017/18



Further Education relevant reports

[Scotland's Colleges 2018] – June 2018

Edinburgh College

2017/18 Annual Audit Report

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