Edinburgh College

2019/20 Annual Audit Report

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

08 December 2020

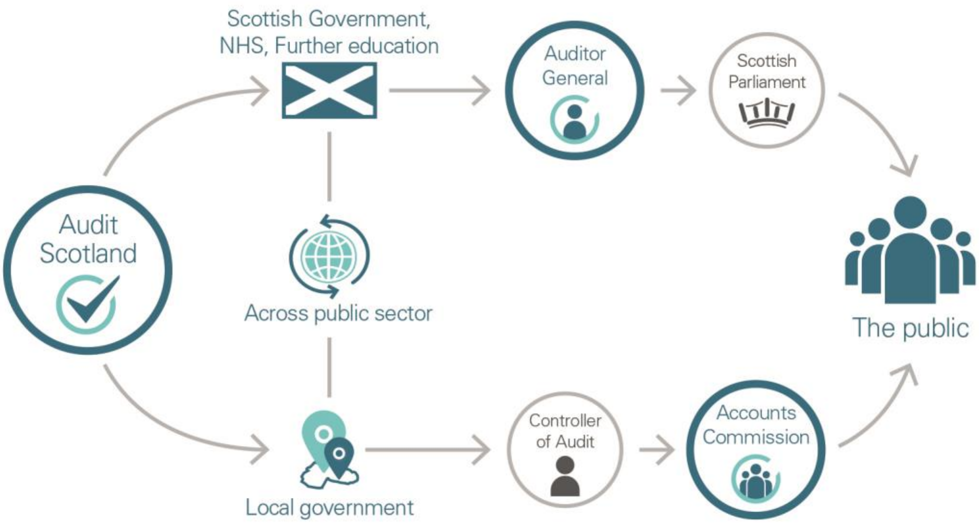
Who we are

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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Key messages

2019/20 annual report and accounts

1 The financial statements of Edinburgh College give a true and fair view of the financial position at 31 July 2020 and its expenditure for the year.

2 We have included an 'Emphasis of Matter' paragraph in the independent auditor's report to draw attention to the impact of Covid-19 on property valuations. The audit opinion is not modified for this matter.

Financial management

3 Edinburgh College reported an operating deficit of £4.6 million, £1.6 million less than last year's deficit. As was the case last year, its 2019/20 'adjusted operating position' shows a small surplus.

4 The College has appropriate arrangements for financial management and financial systems of internal control operated as expected.

Financial sustainability

5 The College's financial situation continues to be very challenging with a range of related uncertainties. Break-even over the next five years requires cumulative savings of £4.8 million. The College will need to make difficult decisions about its spending and the affordability of its current business model.

6 The College's medium-term financial plan is effective in identifying risks to financial sustainability. Developing a longer-term financial strategy for the next five to ten years would further inform planning and decision-making.

7 Covid-19 has had a significant impact on the College and its business. It is refreshing its strategic priorities to reflect the learning from Covid-19.

Governance and transparency

8 Edinburgh College has appropriate governance arrangements that support accountability and effective scrutiny.

9 The College took effective action to adjust its governance arrangements in response to the challenges associated with Covid-19.

10 The College plans to improve its cyber security arrangements.

Value for money

11 The College has made good progress in developing its performance management framework. Despite Covid-19, the percentage of enrolled full-time students achieving a recognised qualification in 2019/20 increased. The achievement levels for enrolled part-time students have continued to decline.

12 The College demonstrates a strong commitment to equalities.

Introduction

1. This report summarises the findings arising from our 2019/20 audit of Edinburgh College. The scope of our audit was set out in our Annual Audit Plan presented to the 27 May 2020 meeting of the Audit and Risk Assurance Committee. This report comprises the findings from:

- an audit of the college's annual report and accounts
- consideration of the wider dimensions that frame the 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

2. The main elements of our audit work in 2019/20 have been:

- a review of the Edinburgh College's main financial systems
- an audit of Edinburgh College's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

Added value through the audit

3. We add value to Edinburgh College through the audit by:

- identifying and providing insight on significant risks, making clear and relevant recommendations, and reporting our findings and conclusions in public

- sharing intelligence and good practice through our national reports (Appendix 4) and good practice guides

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

4. In so doing, we aim to help Edinburgh College promote improved standards of governance, better management and decision-making and more effective use of resources.

5. During 2019/20, we provided the College with technical assistance and additional insight on accounting and reporting issues. This included the College's review of its accounting policies, pensions disclosures, and the content of the performance report and the corporate governance statement. More recently, in response to questions from the College about the application of the going concern basis of accounting, we provided information based on our understanding of the technical issues affecting audit considerations of going concern in the public sector.

Responsibilities and reporting

6. Edinburgh College is responsible for preparing annual report and accounts in accordance with the account's direction issued by the Scottish Funding Council (SFC) and for establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

7. 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.

8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,

- the suitability and effectiveness of corporate governance arrangements,

- the financial position and arrangements for securing financial sustainability.

9. 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.

10. This report raises matters from the audit of the annual report and accounts 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.

11. Our annual audit report contains an agreed action plan at Appendix 1, setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

Auditor independence

12. Auditors appointed by the Auditor General for Scotland must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2019/20 audit fee of £30,100 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both Edinburgh College and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual report and accounts

Main judgements

The financial statements of Edinburgh College give a true and fair view of the College's financial position as at 31 July 2020 and of its deficit for the year then ended.

The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The other information in the 2019/20 annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

We have included an 'Emphasis of Matter' paragraph in the independent auditor's report to highlight the College's disclosure of material valuation uncertainty of property relating to Covid-19.

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

Our audit opinions on the annual report and accounts are unmodified

16. The annual report and accounts for the year ended 31 July 2020 were approved by the Board of Management on 8 December 2020. We reported, within our independent auditor's report that:

- 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 consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

17. We have included an 'Emphasis of Matter' paragraph in our independent auditor's report which refers to the impact of Covid-19 on the valuations of land and buildings. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. The Statement of Accounting Policies in the financial statements describes the uncertainty caused. The audit opinion is not modified in respect of this matter. Further information is contained in Exhibit 3 below.

The annual report and accounts were signed off within the agreed timescales

18. The unaudited annual report and accounts were received on 25 September 2020, in line with the agreed audit timetable. The working papers which accompanied the accounts were of a good standard and the audit team received good support from finance staff which helped ensure the final accounts audit process ran smoothly

19. Due to Covid-19 restrictions, Edinburgh College and Audit Scotland staff operated remotely during the audit. This presented challenges to the Edinburgh College finance team and the Audit Scotland audit team. We are pleased that the approach taken by both teams has enabled completion of the audit in accordance with the planned timetable.

Overall materiality is £715,000

20. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements.

21. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate (Exhibit 2).

Exhibit 2
Materiality values

Materiality level	Amount
Overall materiality	£715,000
Performance materiality	£357,000
Reporting threshold	£20,000

Source: Audit Scotland

The main risks of material misstatement and our related work

22. Appendix 2 provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. Appendix 2 also identifies the work we undertook to address these risks and our conclusions from this work.

Significant findings to report on the annual report and accounts

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant findings 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.

Exhibit 3
Significant findings from the audit of annual report and accounts

Issue	Resolution
1. Impact of Covid-19 on land and buildings valuation	
Edinburgh College's land and buildings are valued as part of a rolling five-year valuation programme. In 2019/20, £157.2 million of these assets were revalued by external valuers. The valuers' final valuation report contains a 'material valuation uncertainty' clause relating to the impact of Covid-19 on the property market. It highlights that a higher degree of caution should be attached to the valuation than would normally be the case. This reflects guidance issued by the Royal Institution of Chartered Surveyors (RICS). The unaudited accounts did not provide sufficient information about this within significant judgements and estimates and in the tangible fixed assets note.	Management included additional disclosures in the statement of principal accounting policies, significant judgements and estimates (Note 1) and in the tangible fixed assets note (Note 12) to highlight the uncertainty relating to the market valuation. We have included an Emphasis of Matter paragraph in the Independent Auditor's Report to highlight this disclosure as it is fundamental to users' understanding of the accounts. This relates solely to the impact of the Covid-19 pandemic. We are content with the College's disclosures. The audit opinion is not modified in respect of this matter.
2. Provision for accommodation occupancy rates	
Edinburgh College has a contract for the placement of students in residential accommodation which includes clauses in relation to a guarantee of occupancy. In the unaudited accounts, the College included a provision of £1.1 million for the full estimated costs to 2025 when the contract can be terminated. However, management recognised that the College may incur additional costs in the future years based on the discussions with the landlord.	Management increased the provision by an additional £0.4 million to £1.5 million and made appropriate adjustments to the accounts. We reviewed the revised provision and are satisfied that it meets the requirements of the applicable accounting standards and that the revised provision is reasonable.

Source: Audit Scotland

Identified misstatements of £0.2 million were lower than our performance materiality

24. Total aggregate misstatements identified during the audit were £0.2 million, which would have decreased net expenditure and increased net assets by £35,000. These mainly consist of overstated asset additions and discounted future cash flows not being applied to the provision for accommodation occupancy rates. We have concluded that the misstatements identified arose from isolated issues identified in their entirety and do not indicate systematic error.

25. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have not adjusted for one misstatement that exceeds our reporting threshold as they do not consider it material. This relates to discounted future cash flows not being applied to the provision for accommodation occupancy rates. If adjusted, provisions would decrease by £35,000 and expenditure would also decrease by the same amount. We are satisfied that this error does not have a material impact on the financial statements.

Other findings from the audit of the financial statements

26. We highlight below other significant matters identified during our audit.

Going concern

27. On the going concern basis of accounting, the auditor's responsibilities are to conclude on:

- whether a material uncertainty related to going concern exists
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

28. The Financial Reporting Council's Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom indicates that a going concern basis of accounting is appropriate in a public sector organisation unless there is a known intention to abolish, transfer or privatise activities. Even then, if the transfer of operations is within the public sector, a going concern basis of accounting may still be appropriate. The Financial Reporting Manual (FReM) also interprets going concern for the public sector context in a similar way.

29. Edinburgh College prepared its 2019/20 accounts on the going concern basis. This is supported by the College's assessment of going concern. In particular, the College receives around 80% of income in the form of funding from the SFC and this has been confirmed to continue to the end of the 2020/21 financial year. Additionally, there has been no communication from the SFC that the College's functions would cease. We were content with the College's going concern assessment and the use of the going concern basis of accounting. This is a separate consideration from the significant financial sustainability issues faced by the College and described in Part 3 of this report.

Pension liabilities

30. There are two significant matters which have the potential to affect Edinburgh College's pension liabilities in future years:

- Last year a legal ruling was made regarding age discrimination arising from public sector pension scheme transition arrangements (known as the 'McCloud case'). This significantly increased the probability of future liabilities for public bodies that participate in the Local Government Pension Scheme (LGPS), including Edinburgh College. Because of the judgement, the College's actuaries included an additional £1.4 million in the past service cost in the 2018/19 accounts. After the publication of the proposed remedy (still subject to consultation) the actuarial valuation for the pension liability was revisited and the College's actuaries reduced this by £1.2 million as shown in Note 23 of the 2019/20 accounts. We are satisfied with this approach and confirmed that the actuary's assumptions were reasonable.
- A recent employment tribunal case (known as the 'Goodwin tribunal') in relation to pension equality for opposite sex survivors increased the pension entitlement of male survivors in opposite sex marriages with the change backdated to December 2005. This ruling will affect the future retirement benefits of members of LGPS and Scottish Teachers' Superannuation Scheme (STSS) but the level of this impact cannot yet be quantified with any certainty by the actuary. As a result, the College has included this in a contingent liability Note 27 in the 2019/20 accounts. We are content with this approach.

Componentisation of buildings

31. As part of the valuation of the College's land and buildings, external valuers provided a value for each of the four campuses. Each campus consists of the building and land assets, and infrastructure assets such as tarmac parking areas, walking/ cycle paths and similar.

32. In the unaudited accounts, infrastructure assets have not been disclosed separately from buildings even though they would likely have different useful economic lives (UEL) to the building assets. The campus assets should be split into components that recognise the different UELs.

33. Management agreed to split assets into appropriate components next year. This is a significant exercise which will include obtaining separate values for buildings and infrastructure assets from external valuers. We are content with the disclosures in the accounts this year and will review progress next year.

Recommendation 1

The campus assets should be split into components that recognise the different useful economic lives.

(refer Appendix 1, action plan, point 1)

Non-adjusting event after the reporting period

34. On 16 November 2020 the College opened a voluntary severance scheme to begin to address the cumulative financial gap of £4.8 million over the next five years. The College considers that achieving these savings, which will affect staff structures, will provide financial stability and sustainability which is critical to the College in successfully implementing its strategy and investment in digital technology. This is disclosed as a non-adjusting event after the reporting period in the notes to the financial statements. We considered this matter as part of our procedures leading to the date of signing the independent auditor’s report and concluded that the disclosure is appropriate.

Edinburgh college has made good progress with prior year recommendations

35. Edinburgh College has made good progress in implementing our prior year audit recommendations. For the action not yet implemented, a revised response and timescale have been agreed with management and are set out in Appendix 1.

Part 2
Financial management

Main judgements

In 2019/20, Edinburgh College reported an operating deficit before other gains and losses of £4.6 million. This was £1.6 million less than last year's deficit, mainly due the impact of Covid-19.

The College's 'adjusted operating position' was a surplus of £0.5 million, a decrease of £0.2 million from last year. The 2019/20 surplus compares favourably with the budgeted break-even position.

The College has appropriate financial management arrangements. Financial systems of internal control are operating as expected.

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

Edinburgh College reported an operating deficit of £4.6 million and an 'adjusted operating surplus' of £0.5 million

36. As shown in Exhibit 4, Edinburgh College reported an operating deficit before other gains and losses of £4.6 million in the Statement of Comprehensive Income for the year ended 31 July 2020. This is an improved position on last year's operating deficit of £6.2 million.

Exhibit 4
Financial performance in 2019/20

Performance against resource limits set by SFC	2019/20 (£m)	2018/19 (£m)	Difference (£m)
Income	67.4	67.9	(0.5)
Expenditure	(72.0)	(74.1)	2.1
Deficit before other gains and losses	**(4.6)**	**(6.2)**	**1.6**
Loss on disposal of fixed assets	-	(0.1)	0.1
Deficit for the year	**(4.6)**	**(6.3)**	**1.7**

Source: Edinburgh College annual report and financial statements 2019/20

37. The £1.6 million (26%) decrease in operating deficit compared with last year is mainly attributable to the impact of Covid-19. Operating expenses were around £2 million lower, mainly due to campus closures from March 2020. The College also made use of the UK Government's job retention scheme which resulted in an additional income of £1 million. However, tuition fees, education contracts and commercial and international income were around £2 million lower than last year. The College's SFC recurrent grant increased by £2.4 million with the majority of this (£1.3 million) for increased STSS employer pension contributions.

38. In accordance with Scottish Funding Council guidance, the College's 'adjusted operating position' in 2019/20 was a surplus of £0.5 million, a decrease of £0.2 million from 2018/19 as shown in Exhibit 5. The adjusted position removes non-cash accounting adjustments included in the Statement of Comprehensive Income (SoCI) such as pensions, depreciation and provisions.

39. The original budget for 2019/20 projected a break-even adjusted operating position which is a key measure of the College's financial performance.

Exhibit 5
Adjusted financial position in 2019/20 compared to the previous year

	2019/20 (£m)	2018/19 (£m)	Movement (£m)
Surplus / (Deficit) before other gains and losses	(4.6)	(6.2)	1.6
Depreciation (net of deferred capital grant release)	2.5	2.3	0.2
Pension adjustments	2.8	4.0	(1.2)
Early retirement provision charged to SoCI	(0.1)	0.3	(0.4)
Non-cash provision adjustment	0.8	0.9	(0.1)
Exceptional income funding reduction	-	0.5	(0.5)
Revenue funding allocated to loan repayments and other capital items	(0.7)	(1.1)	0.4
Cash paid out on the provision created last year	(0.2)	-	(0.2)
Adjusted Operating Surplus / (Deficit)	**0.5**	**0.7**	**(0.2)**

Source: Edinburgh College annual report and financial statements 2019/20

40. Edinburgh College had total reserves of £32.5 million, representing the revaluation reserve of £49.3 million and a negative balance in the income and expenditure reserve of £16.8 million due to the pension liability of £58 million (£25.6 million in 2018/19). Overall, the balance on reserves has decreased by a further £25.9 million since last year, adding to a £18.1 million decrease between 2017/18 and 2018/19. This is due to a substantial actuarial pension loss of £29.7 million (£11.8 million in 2018/19), an operating deficit for the year of £4.2 million, offset by the revaluation of land and buildings of £8.4 million.

Budget monitoring was appropriate

41. We reviewed Edinburgh College's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the College's revenue financial position.

42. Last year we reported that limited information on capital budget and capital spending was included in the monthly management accounts. We are pleased to note that in 2019/20 the monthly management accounts included more detailed capital budget monitoring information. This included cumulative spending against total capital budget and spending for the most significant capital projects.

Financial systems of internal control are operating as expected

43. As part of our audit we identify and inspect the 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.

44. Our management letter presented to the Audit and Risk Assurance Committee on 27 May 2020 concluded our findings from the review of systems of internal controls. We concluded that the key controls were operating as expected, with some areas for improvement in journal and expenditure authorisation processes. No significant internal control weaknesses were identified 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.

Internal audit

45. Internal audit provides the Board of Management and the Principal with independent assurance on the Board's overall risk management, internal control and corporate governance processes. A firm of accountants continued to provide internal audit services to Edinburgh College in 2019/20.

46. We reviewed the College's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. While we decided not to place formal reliance on the work of internal audit, we did consider several of its reviews as part of fulfilling our 2019/20 financial statements and wider dimensions audit responsibilities. These included procurement and contract management, performance management follow-up, cyber security and commercial income.

47. Despite Covid-19, internal audit completed all planned work during 2019/20 and Edinburgh College continued to implement the majority of internal audit recommendations in line with agreed timescales.

48. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report, used to inform the annual corporate governance statement. The opinion provided in 2019/20 concluded that the risk management, control and governance arrangements were suitably designed and were operating with sufficient effectiveness to provide 'reasonable assurance' that the related risk management, control, governance and value for money objectives were achieved for the period under review, except in the case of cyber security.

49. Internal audit provided 'limited assurance' over the design and operational effectiveness of arrangements in relation to cyber security. This means that it identified significant gaps in the procedures and controls in key areas and recurring exceptions in testing of these procedures and controls. Further detail is provided in

Part 4 of this report (paragraphs 80 to 82). The College has disclosed this in the corporate governance statement. It is planning to implement the majority of internal audit's recommendations by the end of 2020 with work continuing into next year due to the nature and complexity of some recommendations.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

50. Edinburgh College is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities and to ensure that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place. We highlighted to the College that the Covid-19 hub on our website contains a report on Covid-19 Financial Impact and Emerging Fraud Risks.

51. We have reviewed the arrangements in place to maintain standards of conduct including Codes of Conduct for Board members and staff. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

52. We concluded that the College has appropriate arrangements for the prevention and detection of fraud, error and irregularities. These are regularly reviewed to ensure they remain relevant and current. We are not aware of any specific issues we require to bring to your attention.

Part 3

Financial sustainability

Main judgement(s)

The College's financial situation continues to be very challenging with a range of related uncertainties. A break-even 'adjusted operating position' over the next five years requires annual savings of up to £2.1 million and cumulative savings of £4.8 million. The College could face significant cash liquidity issues in 2020/21 and the future years. It will need to make difficult decisions about its spending and the affordability of its current business model.

The College's medium-term financial plan is effective in identifying risks to financial sustainability. Developing a longer-term financial strategy for the next five to ten years would further inform planning and decision-making.

The Covid-19 global pandemic had a significant impact on the focus and priorities of the College. As a result, the College is currently refreshing its corporate priorities to reflect the learning from Covid-19.

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

Break-even over the next five years requires cumulative savings of £4.8 million. The College will need to make difficult decisions about its spending and its business model

53. On-going financial challenges within the further education sector and the increasingly tight financial environment in which the College operates mean that it is crucial that the College has plans 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 in the longer-term.

54. Edinburgh College is funded substantially through Scottish Funding Council (SFC) grants (81% of income in 2019/20). In the three years from 2018/19 to 2020/21, the College was expected to repay the additional £2.9 million funding, received from SFC to assist with its Business Transformation Programme. It repaid £0.5 million in 2018/19 but it did not make any further repayments in 2019/20 due to insufficient cash availability. In addition to SFC funding, the College is financed by a long-term bank loan which is due to be repaid in 2034. The balance was £9.3 million as at 31 July 2020. From 2019/20, the College no longer receives £0.8 million of annual debt servicing funding from the SFC.

55. The Board of Management approved the College's 2020/21 budget in June 2020. The College is budgeting for an operating deficit of £1.7 million, mainly due to the adverse effects of Covid-19 on commercial and international income, with a further cumulative operating deficit of £5.6 million projected for the four years from 2021/22 to 2024/25.

56. To achieve a break-even 'adjusted operating position' over the next five years, the College needs to achieve staff efficiencies of up to £2.1 million each year and cumulative savings of up to £4.8 million. There is a risk that the College will not be able to achieve these savings which could lead to significant cash-flow issues. As part of its business case to the SFC, it is seeking a cash advance of up to £1 million to support its liquidity concerns in 2020/21.

57. The College expects to achieve the projected savings through the voluntary severance (VS) scheme approved by the SFC. This follows four VS schemes in previous years. The College is planning to implement three phases of the VS scheme over the next two to three years and is currently seeking financial support from the SFC. It believes that, due to the operational savings of around £25 million achieved since 2013/14, there is no longer scope for achieving further non-pay savings without a detrimental effect on its core business operations.

58. The College also recognises the key financial risks which could undermine the College's progress towards financial sustainability. These include risks of SFC's financial support reducing further, the VS scheme not delivering the required savings, other sources of income not recovering or reducing further due to Covid-19 and future national pay awards not being funded. The UK's withdrawal from the European Union (EU) is also likely to impact on the College's financial projections. The impact on its core business such as student recruitment and retention could be substantial.

59. We concluded that the College's medium-term financial plan is clear and effective in identifying and addressing risks to financial sustainability over the next five years. It includes sensitivity analysis for assumptions such as funding, other income and staff costs. Together with the latest curriculum plan and the recently completed workforce planning exercise, the financial plan supports organisational changes to be implemented over the next three years. These include the reshaping of the curriculum, increased use of technology, a more flexible workforce, and a leaner staff support structure.

60. The College will need to continue reviewing its projected savings to ensure they are realistic and achievable. It faces difficult decisions about its spending and the affordability of its current business model. As reported in our 2019/20 SFC Annual Audit Report, the SFC recognises the significant financial impact of Covid-19 on colleges and is working with them to help them manage the associated risks. For example, it approved an early cash drawdown of £0.6 million requested by EC in July 2020 due to cash flow being historically slower in July and particularly given Covid-19 effects this year.

61. The College has recently conducted an extensive workforce planning exercise to support future delivery of course provision and other operations. It incorporates short, medium and long-term planning for more flexible workforce matched to the needs of delivery and reduction of staff costs in future years. To achieve this, the College is planning to review its staffing, structures, services and processes to identify where savings can be made.

62. Last year we recommended that the College develops a long-term financial strategy to enhance the information available to the Board and allow it to fully understand the financial position of the College in the longer-term. The College has not progressed this as it focused on more immediate challenges due to Covid-19 this year. It is planning to build on its well-established medium-term financial plan to prepare a long-term financial strategy for the next five to ten years, once its future priorities have been refreshed.

Recommendation 2

The College should keep its projected savings under review to ensure they are realistic and achievable. To enhance financial planning and further inform decision-making, the College should develop an overarching longer-term financial strategy for the next five to ten years.

(refer Appendix 1, action plan, points 2 and 9)

The College is refreshing its corporate priorities to take account of the learning from its response to Covid-19

63. In looking at the longer-term challenges, the College is currently refreshing its corporate strategy in response to a rapidly changing environment. It recognises that it will need to reshape its business model including its curriculum and its workforce to meet future demands for service provision, increase its capability for remote working and contribute to the skills-led economic recovery.

64. The College is also planning to update the associated digital and estates strategies. The learning from its response to Covid-19 shows that its current delivery model does not utilise the College's estate to its full effect and that there may be too much face-to-face service delivery. The College considers that operating across four main campuses places strain on existing staff levels and that capital funding should be focused on its digital infrastructure rather than on maintenance of its estate. This would support the College's plans for enhanced blended learning capacity across all course provision. The College included this proposition in its business case to the SFC.

Part 4

Governance and transparency

Main judgements

Edinburgh College has appropriate governance arrangements that support accountability and effective scrutiny.

The College took effective action to adjust its governance arrangements in response to the challenges associated with Covid-19.

The College plans to improve its cyber security 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.

The College's governance and transparency arrangements are appropriate

65. Following previous reporting, we remain of the view that Edinburgh College has appropriate arrangements in place to support good governance, accountability and scrutiny. The governance and transparency arrangements we consider include:

- Board of management (the Board) and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption - this includes action in response to the National Fraud Initiative
- openness of the Board and its committees
- public access to information via websites
- reporting of performance and whether this is fair, balanced and understandable.

66. On departure of the Board chair on 31 October 2019, the vice chair became interim chair of the Board and a new interim vice chair (who is also the chair of the Audit and Risk Assurance Committee chair) was appointed. In 2020, the Board appointed two new Board members to fill the resulting vacancies. It is currently progressing an appointment of further two Board members for succession planning. The public appointments process for a new chair commenced in January 2020 with an intention to confirm the appointment in June 2020. Due to the impact of Covid-19, the Scottish Government subsequently delayed the recruitment process until 2021. In the meantime, the vice-chair's term has been extended until March 2022 for continuity.

67. We reported last year that the College engaged external consultants to review the College's governance arrangements. This included an online survey, discussions with members of the Board, committees and senior management and observation of Board and committee meetings. The results of the review were presented to the Board in December 2019 and concluded that:

- the standard of governance at the College was good and that Board members were committed and passionate about doing a thorough job
- the College's governance processes, practices and policies were fit for purpose
- the College was compliant with the Code of Good Governance for Scotland's Colleges
- developments to improve governance and practice including prioritisation of student engagement, forward planning and agenda setting, and risk register development were to be commended.

68. The consultants made recommendations designed to "build on good practice and support the College's progressive approach". They included establishing a dashboard of organisational key performance indicators (KPIs), agreeing a model strategy development process, developing an external engagement strategy for the Board, planning a structured development programme for Board members and updating the Board's skills matrix. The report noted that implementing these recommendations would move the College beyond compliance with the Code. The College has prepared an improvement plan in response and this is regularly monitored by the Board.

The College took effective action to adjust its governance arrangements in response to Covid-19

69. The significant impact of Covid-19 on Edinburgh College has been set out in the corporate governance statement in the College's annual report and accounts. The College took effective action to manage the unprecedented nature and scale of the threat to its staff, students and operations.

70. College campuses closed on Friday 20 March and, as at December 2020, the majority of the College's staff continue to work from home. The College used a staff survey to identify key issues facing staff such as health and wellbeing and to take appropriate action through its line management structures. For the academic year 2020/21, the College has adopted a blended approach to teaching and learning, with most courses currently delivered online and with some face-to-face teaching.

71. The College developed a specific Covid-19 risk register and a '5R plan' to identify and manage the impacts of the pandemic. In May 2020 the Policy & Resources Committee (P&R Committee) approved a themed approach to this with the following 5R themes:

- Response – initial crisis response to the pandemic which took place between March and June 2020
- Resilience – planning for the return phase which took place between June and September 2020
- Return – delivering a return to college business for staff, students and other partners from 7 September 2020 onwards
- Re-imagining and re-invent – thinking about how the College need to change and adapt to ensure long term sustainability and impact
- Reform – implementing those agreed changes.

72. The College's progress on delivering the 5R plan was regularly reported to the Board and its committees. The final 5R steering group meeting took place 10 September 2020 and at this point the College decided to integrate the 5R plan activities into its core business. As a result, each element of the 5R plan was mapped to the relevant business as usual arrangements.

73. The Executive provided more regular communications to the Board between March and May. Board members were supportive of this and the College's mitigating actions in response to Covid-19. Additionally, the committee chairs welcomed their ability to join the weekly online meeting between the Board interim chair, interim vice chair and the College's principal. Since May, all Board and committee meetings have been held online and will remain virtual until College campuses are re-opened.

74. We concluded that the Edinburgh College's arrangements in response to Covid-19 were effective and supported good governance and accountability.

75. Audit Scotland published Covid-19 Audit and Risk Committees guide, intended to help audit committee members and other non-executives with questions to ask about the risks arising from Covid-19 and the mitigating actions taken. The guide was considered by the ARAC members at the October ARAC meeting. There is also a Covid-19 hub on our website, containing our various Covid-19 outputs such as Covid-19 Financial Impact and Emerging Fraud Risks.

The performance report was of a good standard but there is scope for further improvement

76. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the performance report. The performance report should provide information on a college, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a college's performance and help stakeholders understand the financial statements.

77. Last year we noted some improvements to the performance and accountability reports and reported that there was scope for further improvements to make the reports more concise and improve their readability. Due to the impact of Covid-19, the College was unable to perform an in-depth review of its approach to the preparation of these reports to align them with good practice.

78. To support our opinion on the performance and accountability reports, we requested additional, improved disclosures such as a clearer articulation of the risks to the College's operations and finances (including Covid-19 related risks) and actions to help mitigate these risks, an explanation of changes to the College's governance arrangements as a result of Covid-19 and enhanced going concern disclosure. We were content with the amended disclosures and concluded that the performance and accountability reports met the requirements and were fair and balanced.

79. We also made recommendations to enhance the College's reporting in the future to make the performance and accountability reports more concise, improve their readability and bring the reports in line with good practice. This could include better links between the College's performance indicators, risks and uncertainties and use of infographics. We shared good practice notes with the College and the College has committed to make further improvements in future years.

Recommendation 3

The College should consider making the performance and accountability reports more concise, improve their readability and bring them in line with good practice.

(refer Appendix 1, action plan, point 3)

The College plans to improve its cyber security arrangements

80. Edinburgh College was Cyber Essentials Plus certified at its annual re-assessment in January 2020. This confirmed the function was well-placed to defend the College's information against malicious attacks and to build upon this accreditation going forward.

81. We reported last year that the College had yet to carry out penetration testing (both internal and from the outside) of its data networking infrastructure. An external consultant carried out a systems penetration test in February 2020 and the College is currently working to address the resulting recommendations. The cyber security risk continues to be one of the tops risks identified by the College.

82. As noted in Part 2 of this report (paragraph 49), internal audit provided 'limited assurance' over the design and operational effectiveness of the College's arrangements in relation to cyber security. The internal audit report identified a number of areas for improvement such as the lack of policies and guidance for cyber security, a formally documented process for changing staff user access and permissions, an assessment of the level of security required for each of the system and a penetration testing plan. The College is planning to implement the majority of internal audit recommendations by the end of 2020 with work continuing into next year due to the nature and complexity of some recommendations.

Part 5
Value for money

Main judgements

Edinburgh College has made good progress in developing its performance management framework.

Despite Covid-19, the percentage of enrolled full-time students achieving a recognised qualification in 2019/20 improved on last year. The achievement levels for enrolled part-time students have continued to decline.

Edinburgh College demonstrates strong commitment to equalities.

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

Edinburgh College made good progress in developing its performance management framework

83. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board of Management. The Financial Memorandum between the Scottish Funding Council (SFC) and fundable bodies in the college sector requires Edinburgh 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.

84. We reported last year that internal audit had highlighted issues with the College’s business planning and performance management. These included the lack of overarching reporting of KPIs to the Board, no clear alignment between the College’s operational plans and its strategic plan, and scope for improvement of the College’s performance targets.

85. The College made good progress with the development of its performance management framework in 2019/20. In March 2020, the Board approved the ‘Annual Performance Strategic Plan KPI Dashboard’ and confirmed that it was content with the ‘Quarterly Strategic Plan KPI Dashboard’. It also agreed that from August 2020 all quarterly KPIs would be reviewed at a committee level and by an associated Executive Team officer prior to their presentation to the Board as an appendix to the Principal’s Report. As a result, all strategic KPIs were allocated to the relevant committees. Additionally, all Board paper cover sheets now include references to specific strategic strands and specific KPIs.

86. Operational plan actions and objectives are also now aligned to the five aims of the strategic plan 2017/22. These plans include improved performance targets to support the achievement of strategic objectives, and each plan is formally approved by the relevant Executive team officer.

Performance levels were in line with agreed targets

87. The level of SFC recurrent grant to Edinburgh College 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 provided education to 25,981 students during 2019/20 and achieved 187,977 credits, exceeding its target of 187,947 by 30 credits. The College's internal auditor carries out annual checks to confirm the accuracy of the reported activity and credits.

88. We reviewed the main performance indicators used by Edinburgh College and trends over the 5-year period. These are summarised in Exhibit 6.

Exhibit 6
Key performance indicators – trend analysis

KPI	2015/16 (%)	2016/17 (%)	2017/18 (%)	2018/19 (%)	2019/20 (%)
Full-time FE aged 16-19	61.6	57.5	54.9	46.5	58.5
Full-time FE	65.0	62.9	60.7	56.0	58.5
Full-time HE	73.7	73.1	71.3	69.8	74.4
Part-time HE	73.8	82.1	84.3	75.5	60.0
Part-time FE	75.5	71.9	70.8	66.2	54.6

Source: Edinburgh College annual report and financial statements 2015/16 to 2019/20

89. Exhibit 6 shows an improvement for 2019/20 in the percentage of enrolled full-time students achieving a recognised qualification. The achievement levels for enrolled part-time students have continued to decline. The decrease in achievement across all categories in 2018/19 came after a period of relative stability of achievement rates in 2015/16 to 2017/18.

90. The College assessed the reasons for the reduction in achievement rates in 2018/19 and introduced changes based on its evaluative report submitted to the SFC in 2019/20. The College's evaluative report and enhancement plan provides detail of the changes in 2019/20 such as better planning of assessment delivery, timetabling improvements and new approaches in integrated learning outcomes. The College continues to implement its enhancement plan.

Edinburgh College demonstrates strong commitment to equalities

91. Fairness and equality are one of the Best Value characteristics listed in the Scottish Public Finance Manual. We performed a high-level review of how the College demonstrates its compliance with the 2010 Equalities Act, and how it advances equalities within the organisation and in its business activities.

92. Our review confirmed that the College complies with the general equality duty and the specific duties of the 2010 Equalities Act in relation to both staff and students. Every two years the College publishes the Equality Outcomes and Mainstreaming Progress Report, focused on progress in meeting equality outcomes. The 2019 report re-focused the equality outcomes to centre on increasing the participation in College services and improving experience of people included under the protected characteristics covered by the Act. The Access and Inclusion Strategy 2018-22 outlines the College's commitment to all students having equal opportunities. The College also develops a new set of equality outcomes every four years and makes its Equality Impact Assessments publicly available on its website.

93. The College has appropriate arrangements to advance equalities within the organisation and in its business activities. The College's 'Widening Access and

Equality and Diversity Group' drives forward and oversees equalities work. It includes members from a wide range of teams including the students' association. Every equality output has a steering committee or working group such as a Gender Action Plan Steering Group to monitor and review progress.

94. The College is also proactive in advancing equalities externally. For example, it hosted a 'Tackling Poverty and Inequality' conference bringing together representatives from the Scottish Government, College Development Network, Edinburgh Poverty Commission and other partners. The College is also a member of the Scottish Government's Disability Confident scheme and LGBT Youth Scotland's LGBT Charter. The College's students' association has won awards around female leadership.

95. We concluded that equalities and diversity have a prominent place at the centre of the College's business and that the College demonstrates strong commitment to equalities.

National performance audit reports

96. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, we published several reports which may be of interest to the body. These are outlined in Appendix 3. The College has effective arrangements in place for considering and reviewing national reports including any locally agreed actions.

Appendix 1

Action plan 2019/20

2019/20 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Componentisation of buildings** As part of the valuation of the College's land and buildings, external valuers provided a value for each of the four campuses. Each campus consists of the building and land assets, and infrastructure assets such as tarmac parking areas, walking / cycle paths and similar. In the unaudited accounts infrastructure assets have not been disclosed separately from buildings even though they would likely have different useful economic lives (UEL) to the building assets. **Risk** There is a risk that the College's asset components have different UELs which would materially change the depreciation charge.	The campus assets should be split into components that recognise the different UELs. Exhibit 3	Agreed Report on infrastructure assets with different useful economic lives will be provided and adjustments made where appropriate Head of Finance 31/07/21
2	**Financial sustainability** In line with the rest of the college sector, Edinburgh College is continuing to face significant financial challenges. To achieve a break-even 'adjusted operating position' over the next five years, the College needs to achieve cumulative savings of up to £4.8 million. It will need to make some tough decisions to achieve these savings. **Risk** There continues to be a risk that the College will not be able to achieve the forecast savings, and this could lead to significant cash/ liquidity issues.	The College should keep its projected savings under review to ensure they are realistic and achievable. Paragraphs 56 & 60	Agreed Forecasts are regularly updated and presented to Executive/ Committee & Board with commentary on projected saving. Chief Operating Officer 30/04/2021

No.	Issue/risk	Recommendation	Agreed management action/timing
3	**Performance and accountability reports** Despite the permitted reductions in reporting this year, the College prepared the reports in full including the performance analysis section of the performance report. There is scope for the College to enhance its reporting and bring the performance and accountability reports in line with good practice. This could include better links between the College's performance indicators, risks and uncertainties and use of infographics. **Risk** There is a risk that the performance and accountability reports are not in line with good practice and that clearer information could be provided to the users of accounts.	The College should consider making the performance and accountability reports more concise, improve their readability and bring them in line with good practice. Paragraph 79	Agreed Further improvement in line with recommendation will be done for 2021 Annual Report. Head of Finance 30/09/21
Follow up of prior year recommendations			
4	**Approval and evidencing of exit packages** The College did not request prior approval from the SFC for the eight exit packages included in the 2018/19 remuneration and staff report. This is required as per the SFC Guidance on seeking approval for severance schemes and settlement agreements. The SFC guidance also states that all settlement agreement decisions should be fully documented and a clear audit trail supporting these decisions retained. However, we were unable to obtain appropriate evidence of the College's decision to authorise the exit packages disclosed. Additionally, one exit package was omitted from the remuneration and staff report. **Risk** There is a risk that Edinburgh College does not comply with SFC guidance to obtain clearance on exit packages or retain evidence of settlement agreements decisions.	Edinburgh College is waiting for retrospective approval for all exit packages from the SFC. It has also committed to fully document all settlement decisions in the future. Edinburgh College should ensure all exit packages are identified and included in the remuneration and staff report next year.	**Complete** The College received retrospective approval for all exit packages from the SFC. Our testing did not identify any issues with exit packages this year.

No.	Issue/risk	Recommendation	Agreed management action/timing
5	**Intangible assets** In our 2017/18 annual audit report we reported that the College's accounting policies did not include a separate policy for intangible assets and no intangible assets were disclosed in the accounts. This position remains unchanged in 2018/19. **Risk** There is a risk Edinburgh College does not comply with the requirements of International Accounting Standards as interpreted for the public sector context.	Edinburgh College has committed to revising its existing accounting policies during 2019/20 to ensure intangibles are clearly distinguished from its existing policy on computer equipment. The College is also planning to review their fixed asset records to ensure intangible assets are disclosed separately from 2019/20 onwards.	**Complete** The College has included a separate policy for intangible assets and intangible assets were disclosed in the 2019/20 accounts. We confirmed that the disclosures were appropriate.
6	**Accounting policies** A number of accounting policies were not included in the College's 2018/19 financial statements. **Risk** There is a risk Edinburgh College does not comply with accounting requirements.	The College included notes for significant judgements and estimates and accounting standards issue not yet adopted. The College should review and update their accounting policies annually to ensure compliance with accounting requirements.	**Complete** The College has updated its accounting policies and we are satisfied that these comply with accounting requirements.
7	**Capital budget monitoring** Limited information on capital budget and spend is included in the monthly management accounts. **Risk** There is a risk that the Board of Management does not have the information required to make to make informed decisions on capital budgets.	To enhance scrutiny of the capital budget, it would be helpful to provide more detailed capital budget monitoring information through existing financial reporting arrangements. This could include any in year changes to the capital budget, cumulative spending against total capital budget and the progress of each significant projects against the original plan, reasons for and consequences of slippage, or delays, of capital projects and any changes in the timing of capital spending.	**Complete** 2019/20 monthly management accounts included more detailed capital budget monitoring information. This included cumulative spending against total capital budget and spending for the most significant capital projects.
8	**Financial sustainability** The College is projecting a break even 'adjusted operating position' between 2019/20 and 2023/24 but this is based on significant staff and other operating cost efficiencies being met.	The College should keep its projected savings under review to ensure they are realistic and achievable.	**Complete** See point 2 for updated position.

No.	Issue/risk	Recommendation	Agreed management action/timing
	Risk There is a risk that the College will not be able to achieve these savings.		
9	**Long-term financial planning** The five-year financial forecast from 2019/20 to 2023/24 provides the Board of Management with a good basis for monitoring financial performance over the medium-term but there is scope for developing this into an overarching longer-term financial strategy. This would enhance the information available to the Board and allow it to understand fully the financial position of the College in the longer-term including any difficult decisions that may be required to a breakeven position in future years. **Risk** There is a risk that the Board of Management does not have the information required to make to make informed financial decisions that will be required in future years.	Edinburgh College should develop an overarching longer-term financial strategy for the next five to ten years to help identify problems with affordability at an early stage. The strategy should include scenario planning, whereby assumptions about different levels of future income, expenditure and activity are made.	**Outstanding** The College has not yet progressed a five to ten years strategy, as the focus has been on its five-year financial sustainability plan and managing the immediate impact on its cash due to Covid-19 since March 2020. It is planning to use its medium-term financial plans as a basis for a long-term strategy once its curriculum priorities are known, which will have a financial impact on the type of estate the College uses in the future, and the workforce requirements. There have been presentations made to the Board/Committees on the College's five-year financial plans showing the savings required to remain financially sustainable aligned to our workforce development plan. The savings of circa £5 million are similar to the previous plan albeit due to Covid-19 the cash savings have been brought forward compared to the previous plan. This is in effect our financial strategy. Chief Operating Officer Revised date: 31/07/2021

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*.

Risks of material misstatement in the financial statements			
1	**Risk of management override of controls**		
	Auditing Standard (ISA 240) requires that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	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 material misstatement caused by fraud in income recognition**		
	As set out in ISA 240, there is a presumed risk of fraud in the recognition of income where income streams are significant. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. In 2018/19, Edinburgh College recorded income of £67.9 million, of which £53.4 million (79 per cent) was provided by the Scottish Funding Council (SFC) and £14.5 million (21 per cent) from other sources. SFC funding is reliant on accurate recording of student activity targets, and the level of income received from other sources is significant. The extent and nature of the College's income streams means that there is an inherent risk of fraud.	Effective anti-fraud and whistleblowing arrangements in place. Financial regulations and procedures outline key controls over systems and processes. Ongoing monitoring of income by the SFC. Adequate segregation of duties and effective budget monitoring arrangements including monitoring of income. Internal audit's annual review of financial controls	We did not identify any issues through our income testing which would indicate fraud over income.
3	**Risk of material misstatement caused by fraud in expenditure**		
	Most public-sector bodies are net spending bodies and therefore the risk of fraud is more likely to occur in expenditure. In 2018/19, Edinburgh College recorded gross expenditure of £74.1 million with an excess of expenditure over income of £6.2 million. The College is required to maintain	Effective anti-fraud and whistleblowing arrangements in place, including involvement in the National Fraud Initiative (NFI). Financial regulations and procedures outline key controls over systems and processes, including in procurement.	We did not identify any issues through our expenditure testing which would indicate fraud over expenditure.

	annual savings targets and achieve a breakeven "adjusted operating position". The extent and nature of the College's expenditure means that there is an inherent risk of fraud.	Ongoing monitoring of expenditure by the SFC. Adequate segregation of duties and effective budget monitoring arrangements including monitoring of expenditure. Internal audit's annual review of financial controls and procurement and contract management.	
4	**Estimation and judgements**		
	There is a significant degree of subjectivity in the measurement and valuation of the following material account areas: • non-current assets • pensions • provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	Reliance on professional non-current asset valuers. Controls are in place to ensure accurate provision of data to actuaries. Pension figures are derived from valuation calculations prepared by actuaries. The finance team reviews the actuary information to ensure data and assumptions used are reasonable. Sound arrangements are in place for identifying and assessing accounting provisions.	We reviewed the work of the valuers and actuaries and were able to place reliance on their work. We reviewed the actuarial data and assumptions used in calculating the pension figures within the report and found them to be reasonable. We assessed the provisions disclosure in the accounts and concluded that there were sound arrangements in place for identifying and measuring their estimated values.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice			
5	**Financial management**		
	The College is projecting a breakeven ‘adjusted operating position” for 2019/20 but it needs to achieve savings of £1.2 million to break even. There is a risk that the College does not achieve the break-even position in 2019/20.	Regular and timely production of accurate monthly management accounts reviewed by budget holders and senior management. Risk register regularly monitored by appropriate committees and board. Regular monitoring meetings with SFC.	We reviewed committee minutes and reports and are satisfied that the College's financial position has been closely reported and monitored throughout the year. The College's ‘adjusted operating position’ in 2019/20 was a surplus of £0.5 million.
6	**Financial sustainability**		
	The College's five-year financial plan from 2019/20 to 2023/24 shows that savings of £6.2 million will be required for the College to achieve its projected break-even “adjusted operating position” in each of the five years. It also highlights a number of medium-term financial challenges such as the projected shortfall in commercial income, repayment of SFC loan, cost of living and pay harmonisation and increasing employer's pension contributions. There is also a range of uncertainties associated with EU withdrawal and with the impact of Covid-	Risk register regularly monitored by appropriate committees and the board. Board and Policy and Resources Committee oversight of financial reports to keep projected savings under review. Regular monitoring meetings with SFC. Development of an overarching longer-term financial strategy to help identify challenges with	In line with the rest of the college sector, Edinburgh College is continuing to face significant financial challenges. To achieve a break-even ‘adjusted operating position’ over the next five years, the College needs to achieve staff efficiencies of up to £2.1 million each year and cumulative savings of up to £4.8 million. It will need to

19. The College identified these risks in its risk register with similar financial pressures seen across the college sector as a whole. There is a risk that the College's financial position worsens, and this affects its cash-flows and operations.	funding and savings at an early stage. Board's consideration of implications of EU withdrawal.	make some tough decisions to achieve these savings. There continues to be a risk that the College will not achieve these savings, and this could lead to significant cash liquidity issues. Recommendation 2 (refer Appendix 1, action plan)

Appendix 3

Summary of national performance reports 2019/20

2019/20 Reports

		Month		
		Apr		
Social security: Implementing the devolved powers		**May**		
Scotland's colleges 2019		**Jun**		Enabling digital government
		Jul		
NHS workforce planning - part 2		**Aug**		
Finances of Scottish universities		**Sept**		
NHS in Scotland 2019		**Oct**		
		Nov		
Local government in Scotland: Financial overview 2018/19		**Dec**		
Scotland's City Region and Growth Deals		**Jan**		Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb		
		Mar		Early learning and childcare: follow-up

Edinburgh College

2019/20 Annual Audit Report

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