



# Forth Valley College

**Annual Audit Report to the  
members of the Board of  
Management and the Auditor  
General for Scotland**

**9 December 2020**



**Building a better  
working world**

# Contents

Section	Auditor Responsibility	Page
<b>Executive Summary</b>	Summarise the key conclusions from our audit	<b>03</b>
<b>Financial statements audit</b>	Provide an opinion on audited bodies' financial statements Review and report on, as appropriate, other information such as the annual governance statement, management commentary and remuneration report	<b>09</b>
<b>Wider scope dimensions</b>	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none"><li>▶ financial position and arrangements for securing financial sustainability</li><li>▶ suitability and effectiveness of corporate governance arrangements</li><li>▶ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets</li></ul>	<b>17</b>
<b>Appendices</b>	Undertake statutory duties, and comply with professional engagement and ethical standards:  Appendix A: Code of Audit Practice: responsibilities Appendix B: Independence and audit quality Appendix C: Required communications with the audit and risk committee Appendix D: action plan Appendix E: follow up of prior year recommendations Appendix F: Timing and deliverables of the audit Appendix G: Summary of Audit Differences	<b>29</b>

## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Forth Valley College (the College) for financial years 2016/17 to 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the College and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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

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

# Executive Summary: Key Conclusions from our 2019/20 audit

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**We have issued an unqualified audit opinion on the College's 2019/20 financial statements.**

## Financial Statements

We have completed our audit of the College's financial statements for the year ended 31 July 2020. There was one adjustment identified that was recorded by management and there are no unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were provided largely in line with the agreed audit timetable. Some areas of the narrative disclosures, including the Annual Governance Statement were updated during the audit process. We also worked with the finance team to update and make improvements to the financial statements, in particular around the Covid-19 impact on governance arrangements and going concern disclosures.

After some amendment as part of the audit process, we concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the disclosures reflect the College's compliance with the *Code of Good Governance for Scotland's Colleges*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

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**We updated our risk assessment in response to the global pandemic, and as a result placed additional focus on:**

- ▶ the adequacy of the College's disclosures in relation to the pandemic; and
- ▶ management's assessment of going concern and the related financial impact of Covid-19 on the College in the year and going forward.

## Going Concern

Management is required to conclude on the going concern basis of preparation in the financial statements. As a result of the unprecedented financial and operational challenges facing the College to respond to Covid-19, we placed additional emphasis on management's assessment of going concern and the related need to report on the impact of financial pressures on the College and its financial sustainability.

We were satisfied that the College remains a going concern and has made appropriate required disclosures in the financial statements. We have considered the related risks to the financial sustainability of the College and its longer term delivery of strategic objectives in our wider scope reporting.

## Wider Scope and Best Value

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

<p><b>Financial Sustainability</b></p> <p>The financial environment in which the College operates was already challenging, and the Covid-19 pandemic has resulted in further, significant financial pressures.</p> <p>The College has prepared and submitted to the Scottish Funding Council a financial forecast return for the three years from 2020 to 2023, which includes a number of assumptions and risks to achieve a balanced underlying operating position over the period.</p>	<p><b>Governance and Transparency</b></p> <p>The key features of good governance remained in place at the College and have been operating effectively throughout the Covid-19 lockdown. The College responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.</p> <p>However, two previously identified actions in relation to improving governance arrangements have not been implemented in the year as initially planned and agreed.</p>
<p>AMBER</p>	<p>GREEN</p>
<p><b>Financial Management</b></p> <p>The College reported an adjusted operating surplus of £1.2 million against an initial budget of £0.7 million deficit. We were satisfied that the College's financial monitoring and reporting was clear and consistent throughout the year.</p> <p>The College has an established budget setting and monitoring framework. We are satisfied that the core financial management arrangements at the College were not materially impacted as a result of Covid-19 and the subsequent lockdown.</p>	<p><b>Value for Money</b></p> <p>The College has a strategic plan for the period 2017-2022, 'making learning work for all'. The College has continued to report its performance against its strategic plan, including key measures within the financial statements. While the College's performance in the year has been impacted by Covid-19, the College's arrangements for considering value for money have not been altered.</p> <p>We have no matters to report in respect of the College's arrangements around procurement or staff severance.</p>
<p>GREEN</p>	<p>GREEN</p>

# Introduction

As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the College by at least 12 months, to 2021/22.

## Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000 (“the Act”), the Auditor General for Scotland appointed EY as the external auditor of Forth Valley College (“the College”) for the five year period 2016/17 to 2020/21. Our appointment term has recently been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both members of the Board of Management and the Auditor General for Scotland, and is presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

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

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the College employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the College in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Where we identify areas for improvement, we will highlight these throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management.

## Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

## Scope and Responsibilities

The Code sets out the responsibilities of both the College and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the audit committee in May 2020.

## The impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in April and May 2020, and presented our Annual Audit Plan to the College's audit committee in May 2020. While the declaration of the global Covid-19 pandemic and the resulting lockdown arrangements were in place, we noted at the time that there remained a significant number of uncertainties over how the pandemic could impact the College's financial statement preparation and arrangements around the areas of wider scope subject to audit. As a result, we revisited our planning assessments for the 2019/20 audit and presented an Annual Audit Plan Addendum to the College in September 2020.

As a result of our assessment we have not identified any new financial statement risks. There are, however, a number of areas of audit where we identified increased risks or new areas of focus within existing risks, most notably classifying the valuation of the College estate as a significant risk. The financial statement disclosures were also expected to have been impacted by Covid-19, including:

- ▶ **Governance Statement:** The governance statement is required to capture how the governance arrangements changed during the lockdown period and what steps were taken to maintain a robust control environment during the disruption.
- ▶ **Disclosures and estimates:** Additional disclosures were required throughout the financial statements, including the management commentary, to reflect the additional risks facing the College and how these have impacted the key judgements and estimates made in preparation of the financial statements. These include disclosures on significant events after the balance sheet date.
- ▶ **Going concern:** In accordance with the Government Financial Reporting Manual ('the FReM'), the College should prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. Covid-19 has created increased financial pressures throughout the public sector. Uncertainty remains about the level of financial support that may become available from the Scottish Government to reflect the financial consequences. In light of this, the audit placed increased focus on management's disclosures regarding the going concern basis of preparation in the financial statements, in particular the financial impact of Covid-19 and the future financial sustainability of the College. The results of this assessment are reported in Section 2 on page 16.

The ongoing disruption to the delivery of further education as a result of the Covid-19 has a pervasive impact upon the financial statements.

The financial statements have been updated to reflect the impact of Covid-19 on the College's financial position and performance.

We remain satisfied that the values reported to you in our Audit Planning Report for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

### Adaption to remote working

Our audit fieldwork was completed remotely as a result of the Scottish Government’s lockdown restrictions. There were two key impacts:

- ▶ Additional work was required to assess the format of evidence provided and where necessary, procedures were performed to validate the authenticity of evidence.
- ▶ All contact with senior management and the finance team was conducted via virtual meetings. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

### Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £735,000. We have considered whether any change to our materiality was required in light of Covid-19 and we remain satisfied that the basis for materiality values reported within our Annual Audit Plan remained appropriate. We have updated our materiality levels to reflect the yearend financial information in the draft financial statements. As we reported in our Annual Audit Report Addendum we audit a number of areas of additional focus to lower materiality levels.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Overall Materiality	Tolerable Error	Nominal amount
<b>£848,000</b>	<b>£636,000</b>	<b>£42,000</b>
2% of the College's total income	Materiality at an individual account level	Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

### **Financial statement audit**

We are responsible for conducting an audit of the College's financial statements. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; relevant Auditing Standards and applicable Practice Notes issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

We are responsible for conducting an audit of the financial statements of the College and provide an opinion on the financial statements as to:

- ▶ whether they give a true and fair view of the state of affairs of the College as at 31 July 2020 and the deficit for the year then ended;
- ▶ whether they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ whether they have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Our findings are summarised in Section 2 of this report.

### **Wider Scope audit**

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Governance and transparency; and
- ▶ Value for money.

Our findings are summarised in Section 3 of this report.





# Financial Statements audit

## Introduction

The financial statements provide the College with an opportunity to demonstrate accountability for the resources that it controls, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The plan highlighted one area that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition, including through management override of controls.

## Compliance with financial reporting requirements

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

The financial statements were prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustees Investment (Scotland) Act and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Management provided the first draft of financial statements at the start of the audit, in line with the agreed timetable. The financial statements included a number of sections which were incomplete (primarily the front-end narrative) and required updating through the audit process and further work by management. The financial statements had been updated for the new requirements as outlined in the Scottish Funding Council's (SFC) 2019/20 Accounts Direction for colleges and the new FE SORP which was applicable this year.

## Audit outcomes

We identified one adjusted audit difference arising from the audit which has been reflected within the financial statements. The difference related to the reclassification of McCloud estimate adjustment from current service costs to Other Comprehensive Income. Our overall audit opinion is summarised on the following page.

The FE/HE SORP 2019 edition became effective for the year ended 31 July 2020. The College performed a review of the impact of the new SORP on their financial statements with the only material change being the new 'Reconciliation of Net Debt' disclosure.

# Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
<p><b>Financial statements</b></p> <p>The financial statements provide a true and fair view of the state of affairs of the College at 31 July 2020 and of the surplus for the year then ended</p> <p>The financial statements are prepared in accordance with the financial reporting framework</p>	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable.</p> <p>We have considered the financial statements against the financial reporting requirements, and additional guidance issued by the SFC and Audit Scotland.</p>	<p>We issued an unqualified audit opinion on the 2019/20 financial statements.</p>
<p><b>Going concern</b></p> <p>We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting</p>	<p>We conduct core financial statements audit work, including management’s assessment of the appropriateness of the going concern basis.</p> <p>Wider scope procedures, including financial forecasts are considered as part of our work on financial sustainability.</p>	<p>We have no matters to report.</p>
<p><b>Other information</b></p> <p>We consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit</p>	<p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> <li>▶ Review of committee minutes and papers, regular discussions with management, our understanding of the College and the sector.</li> </ul>	<p>We are satisfied that the annual report materially meets the core requirements set out in the Accounts Direction.</p>
<p><b>Report on regularity of income and expenditure</b></p> <p>We are required to consider whether in all material respects the income and expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers</p>	<p>Our procedures include:</p> <ul style="list-style-type: none"> <li>▶ Understanding the applicable enactments and guidance issued by the Scottish Ministers</li> <li>▶ Performed detailed testing of income and expenditure testing to ensure transactions are in line with enactments and guidance</li> </ul>	<p>We are satisfied that in all material respects income and expenditure are regular.</p>
<p><b>Matters prescribed by the Auditor General for Scotland</b></p> <p>Audited part of Remuneration Report has been properly prepared.</p> <p>The Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.</p>	<p>We are required to report on whether the sections of the Remuneration and Staff Report, and Accountability Report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.</p>	<p>We have no matters to report.</p>
<p><b>Matters on which we are required to report by exception</b></p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>▶ adequate accounting records have not been kept; or</li> <li>▶ the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>▶ we have not received all the information and explanations we require for our audit</li> </ul>	<p>We have no matters to report.</p>

# Significant and fraud audit risks

## **Risk of Fraud in income and expenditure recognition**

As we outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

As also outlined in our Annual Audit Report, we rebut the risk of improper recognition of SFC core grant funding because there is no judgement in respect of this income stream. With regards to expenditure, we rebut the risk of improper recognition of payroll expenditure.

## **Specific procedures relating to significant risks**

We undertake specific, additional procedures over income and expenditure streams where we identified a significant risk, including:

- ▶ Review and challenge management's accounting estimates over revenue or expenditure recognition for evidence of bias.
- ▶ Review transaction listings for individually material balances as well as unusual items to agree to supporting documentation and third party evidence.
- ▶ Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage of testing across all balances.
- ▶ Review and test income and expenditure around the financial yearend to ensure it is accounted for in the correct financial period.
- ▶ Perform an additional search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.
- ▶ Review both income and expenditure for additional revenue streams and related to the Covid-19 outbreak, such as additional grant income or additional health and safety costs.

## **Our conclusions**

- ▶ Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
- ▶ There were no new material income or expenditure streams as a result of Covid-19. We agreed the impact of Covid-19 on tuition fees with management and concurred with the treatment in the financial statements.

### **Risk of management override**

Our Annual Audit Plan recognises that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

### **Risk of Fraud**

- ▶ We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

### **Testing on Journal Entries**

- ▶ We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained all journals posted in the financial year and used our data analysers to identify those requiring further investigation and corroboration, such as those posted by management to key accounts around the financial yearend.

### **Judgements and Estimates**

- ▶ We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

### **Significant unusual transactions**

- ▶ We evaluated the business rationale for any significant unusual transactions appearing in the financial statements in the year.

### **Accounting Policies**

- ▶ We considered the consistency and application of accounting policies, and the overall presentation of financial information.

### **Our conclusions**

- ▶ We have not identified any additional risks in respect of potential frauds in the financial year.
- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

## Valuation of Property, Plant & Equipment

Given the size of this balance and the number of assumptions that are made in the valuation of the College estate, we assign a higher inherent risk to property, plant and equipment. During the year, the Royal Institute of Chartered Surveyors (RICS) issued guidance that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty at 31 March 2020. While this guidance was subsequently removed by 31 July 2020, there was a materially increased uncertainty around the valuation of assets in the current environment. We upgraded our risk assessment of the valuation of property, plant and equipment to a significant risk as outlined in our Annual Audit Plan Addendum. To address the increased risk, we used internal specialists to examine the work performed by the College's independent valuers for the valuation of the new Falkirk Campus in 2020.

The College has recently completed construction of a new £78 million Falkirk Campus. Management commissioned a valuation as at 31 July 2020. The sale of the old campus was renegotiated and agreed at £2 million (previously valued at £4 million) creating a funding shortfall for the new campus. At the yearend there was also a degree of uncertainty surrounding the repayment of the £2 million sale proceeds which was advanced to the college from SFC.

Our approach focused on:

- ▶ Analysis of the valuation of the new campus at 31 July 2020, including consideration of the source data used, inquiries as to the procedures used by management's specialist, assessment of the reasonableness of the assumptions and methods used in the valuation, consideration of the appropriateness of the timing of when the specialist carried out the work, and assessment of whether the substance of the specialist's findings are properly reflected in the financial statements;
- ▶ Assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation;
- ▶ Consideration of the appropriateness of disclosures made by the College in the financial statements in respect to potential valuation uncertainties at 31 July 2020; and
- ▶ Consideration of the appropriateness of the accounting transactions recorded in relation to the completion of the sale of the Falkirk Campus in the year, including verification of all material transactions to supporting evidence.

## Valuation of Property, Plant & Equipment (continued)

### Our conclusions

- ▶ Our specialists concluded they identified no material audit differences in the approach and conclusions around management's valuation of the new campus at 31 July 2020.
- ▶ We concurred with management's assessment that the remaining property, plant and equipment not subject to valuation in the year was not subject to material changes that would trigger an early revaluation.
- ▶ We concluded that, appropriately, no material uncertainties in respect of the valuation of assets were disclosed in the financial statements.
- ▶ We concurred with management's accounting treatment on the transactions related to the sale of the Falkirk Campus. While the College is awaiting SFC confirmation on the direction of the monies, we concur with the recognition of a creditor for the amount on the College balance sheet.

# Other Inherent Risk Areas

Our Annual Audit Plan highlighted additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

## Valuation of net pension liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (Falkirk Council Pension Fund (FPF)), and the Scottish Teachers Superannuation Scheme (STSS). At 31 July 2020, the College's share of the pension scheme net liability totalled £26.7 million (2018/19: £14.0 million) and the present value of the unfunded obligation in relation to early retirements agreed in previous years is £7 million (2018/19: £6.8 million). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach included:

- ▶ Obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of actuarial assumptions underpinning such reports in conjunction with our internal specialists;
- ▶ Performing substantive testing on the verification of the pension assets. Specifically, we engaged with the auditors of Falkirk Council Pension Fund in line with the assurance protocols laid out by Audit Scotland for IAS 19, including consideration of possible valuation uncertainties driven by the impact of Covid-19. We also analyse the fund's estimated asset position at 31 July 2020 from its financial yearend position at 31 March 2020 against expectations based on equity and other market movements in that time period; and
- ▶ Assessing the work of the actuaries in considering the impact of new and changing legal rulings impacting the liabilities in the fund, in particular in relation to the impact of updated guidance on the impact of the McCloud ruling and the new Goodwin judgement.

### Our conclusions

- ▶ Our work in relation to the reasonableness of the reported asset/liabilities position at the College's balance sheet date is complete and we have nothing to raise in respect to this matter.
- ▶ In relation to the Goodwin judgement, the College has instructed their actuary to perform an impact assessment. Based on the most recent high level estimate performed by Hymans Robertson, the employer's liabilities of the College as at 31 July 2020 would increase by approximately 0.03% as a result of the Goodwin judgement, which would be around £21,000 and therefore management do not consider this to be material for the financial statements.
- ▶ Assumptions used by the actuary and adopted by the College are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

# Going concern

In accordance with the FReM, the College shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still require auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

The rationale for going concern remains the same, but we placed increased focus on management's assertion of going concern and disclosures relating to financial sustainability as a result of the uncertainty and unprecedented budget pressures caused by Covid-19.

Covid-19 has created a number of financial pressures throughout the public sector, including further education. Uncertainty remains about the level of financial support that may become available from the SFC to reflect the financial consequences of Covid-19. As a result, the SFC's 2019/20 Accounts Direction requires an explanation of the adoption of the going concern basis and mitigating actions taken as a result of Covid-19 to be included as part of the going concern commentary within the College's financial statements, both in the Performance Overview and Annual Governance Statement.

Management's going concern assessment and associated disclosures cover at least the 12 month period from the date of approval of the financial statements, but may be expected to include future performance through the medium term. Management did not initially provide a cash flow forecast for the required period of at least 12 months from the intended date of approval of the 2019/20 financial statements, however this was subsequently provided during the audit process. After completing its going concern assessment in line with the information and support provided through the earlier discussions in the audit process, the College has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the College's financial position in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- The completeness of factors considered in management's going concern assessment;
- The integrity and robustness of the underlying cash flow forecasts supporting future financial projections, in particular if the College projects to require financial support during the going concern assessment period; and
- The completeness of disclosures in the financial statements in relation to going concern and future financial performance in line with the requirements of the SFC 2019/20 Accounts Direction.

## Our conclusions

- ▶ We are satisfied that it remains appropriate for the College's financial statements to be prepared on a going concern basis.
- ▶ We challenged management on the adequacy of disclosures in relation to the future financial position of the College, in particular its available resources, potential risks and mitigating actions around future downsides and potential for externally provided support. Enhanced disclosures were made to the financial statements.





## Wider Scope dimensions

### **Introduction**

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the College's arrangements for each of the wider scope audit dimensions. We apply our professional judgement to risk assess and focus our work on each of the dimensions.

### **The Wider Scope dimensions**

#### **Financial Management:**

- ▶ Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

#### **Financial Sustainability:**

- ▶ Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

#### **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.

#### **Value for Money**

- ▶ Considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

We outlined in our Annual Audit Plan Addendum, presented to the Audit Committee in September 2020, how our consideration and audit work in respect of the wider scope dimensions would be impacted by Covid-19 this year. Our areas of audit have therefore been undertaken through the lens of Covid-19.

# Financial Sustainability

The financial environment in which the College operates was already challenging, and the Covid-19 pandemic results in further, significant financial pressures, and creates a significant risk that the College will not be able to develop viable and sustainable financial plans due to external factors.

The College has prepared and submitted to the SFC a financial forecast return for the three years from 2020 to 2023, which includes a number of assumptions and risks to achieve a balanced underlying operating position over the period. This includes assumptions around delivery of savings through reduced staff costs yet to be implemented. In line with previous years', the College has not aligned the financial plans for this period to its strategic objectives. There is a continued risk that required financial savings have a significant impact on the College's delivery of strategic and operational plans.

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## **The context for financial sustainability in the FE sector**

During 2020, the Scottish Funding Council released three reports considering the future of colleges and universities. Most recently in October 2020 the SFC published their review of coherent provision and sustainability which considered how best the SFC can fulfil its mission of securing coherent provision by post-16 education bodies, and the undertaking of research in these changing times. The review covered future provision, delivery, outcomes and targets, funding models and support for research activity across the college and university sector in Scotland.

Specifically, as part of this review, the SFC published their updated analysis of the sector within their report, *The Financial Sustainability of Colleges and Universities in Scotland*. This reflects on the specific financial challenges the sector was facing prior to the impact of Covid-19, including cost pressures from cost of living pay awards, employers' pension contributions, maintaining the college estate and the UK's exit from the European Union, and notes that colleges were already implementing transformation plans to address those challenges. Covid-19 has, in some cases, resulted in the delay of these transformation plans, particularly where they relate to severance and commercial income growth. The main impact of Covid-19 is considered to be felt most by the sector during the 2020/21 financial and academic year.

Recognising the financial challenges facing colleges in the upcoming period, the SFC has identified a number of actions to further support colleges including:

- ▶ Targets - SFC will not recover funds for shortfalls against outcome agreement targets where these are related to Covid-19;
- ▶ Capital Funding - £2.3 million of additional funding for colleges has been awarded to support the provision of ICT equipment to help tackle digital poverty. In addition, the SFC announced £6.5 million of additional capital funding to support the economic recovery in 2020/21;

- ▶ Cash advances - SFC has provided flexibility in grant drawdowns to several colleges encountering liquidity challenges; and
- ▶ Flexibilities in relation to Flexible Workforce Development Fund, Student Support funds and credits.

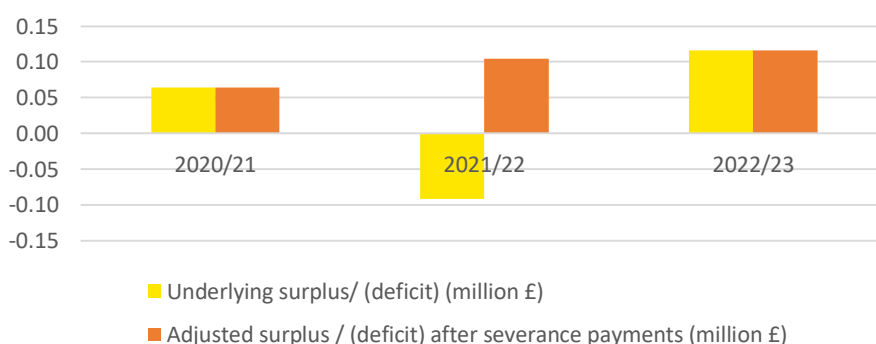
Additional funding is also expected to become available in relation to the Youth Guarantee Scheme (£10 million direct funding for colleges), the transitional training fund and use of the Coronavirus Job Retention Scheme.

In addition to these steps, the SFC is working with the Scottish Government and other stakeholders on a possible Transformation Investment Fund to support colleges to make specific one-off investments to achieve lasting improvement in their financial health.

### Medium term financial forecasting

Traditionally management prepares a five-year financial forecast for the College and submits to the SFC in the form of the template Financial Forecast Return ('FFR'). Given the uncertainty in 2020, resulting from Covid-19 and other competing pressures, this year management has prepared a three year forecast for the period from 2020-23. This was subject to review by the Finance Committee in June 2020 and final approval in September 2020.

**Exhibit 2: The College's financial plan to July 2023 forecasts that the College will achieve an underlying operating surplus of £88,000 over the three years.**



Source: Forth Valley College financial plan September 2020

### Financial impact of Covid-19

The College continues to forecast operating surpluses over the next three years, with the exception of 2021/22 when one off payments for early terminations will result in an operating deficit. The operating surplus of £88,000 over the three years is a reduction from the forecast surplus of £300,000 over the same period in the financial forecast return submitted last year, demonstrating the continuing financial challenges faced by the College.

To achieve financial balance the College has assumed:

1. Core activity will return to pre-pandemic levels in 2020/21. It has been recognised that the costs of potential future forced closures, or other unforeseen costs related to operating in this new environment, are not factored into the future budget forecasts. At the end of October management forecast a year end operating surplus of £64,000.
2. From 2021/22 the College is assuming recurring savings from a reduction of staff by 10 FTE's at a total saving of £380,000 per year. These reductions have not yet been confirmed or aligned to strategic plans.

### **Key risks and sensitivities**

The College's financial forecasting and management's supporting reporting recognises significant uncertainty in preparing financial forecasts in the current environment. The key assumptions included in the College's forecast, and related risks if they are not realised, are:

- ▶ Delivery of student credits in the new environment the College is operating in. While there was no impact on core grant funding in 2019/20 there remains a significant risk of existing and future safety measures limiting the delivery of teaching. This would impact the College's largest source of income. However SFC has subsequently confirmed there would be no clawback in 2020/21 if credit targets were not met.
- ▶ Commercial activity being impacted, both by the existing and future safety measures, and additional focus being required on delivery of core teaching objectives. This has the potential to impact the contribution of commercial activity margins to core strategic aims.
- ▶ Additional costs related to ongoing requirements around health and safety, physical distancing on campus and remote teaching set ups.

These risks supplement the recurrent risks the College faces around its financial position, in particular ongoing uncertainty of staff pay increase and related pensions costs and related funding.

### **Going concern cash flow forecasting**

While the College has prepared its financial statements on a going concern basis, as required per the FReM for a public body, it is required to consider its ability to meet liabilities as they fall due over the going concern assessment period, being at least 12 months from the approval of the financial statements.

The College has forecast its adjusted operating position as outlined on the previous page, and considered the potential for requiring support in conjunction with its existing available cash of £3.7 million at 31 July 2020, (which includes £1.9 million due to the SFC in relation to the disposal of the Falkirk Campus). Based on the existing forecasts management has concluded it will have material headroom to meet all liabilities as they fall due through the financial plan to 2023.

The College has forecast its cash flow during the going concern assessment period, being January 2022, including testing a number of sensitivities which may be impacted by the current uncertainty around the 2020/21 and 2021/22 academic years as a result of Covid-19.

The College's severe downside cash flow forecasts demonstrates it has headroom of c. £400,000 at the lowest point in its going concern assessment period. The College has also prepared reversed stress testing by removing any 'non-fixed' income streams (primarily commercial income and assuming not being able to draw-down on Flexible Workforce Development funds). This scenario showed a deficit in cash position of £150,000 which would be met through SFC cash advance payments as the College's liabilities fall due. This scenario however is not considered to be plausible even in the event of a second lockdown as the College has already proved to be able to deliver through a blending learning model.

However, management has recognised the significant degree of uncertainty and material assumptions and risks associated with the forecasts made over this period. In the current context of Covid-19, with the significance of potential shocks to operating activities and its impact on financial performance, it is critical the College's financial position, and its cash management, is subject to routine review. Any material changes, in particular that could lead to the need for financial support, should be communicated to the SFC as a matter of urgency.

### **Medium term financial strategy and plan**

We outlined in previous years that while the FFR submission process itself is robust, currently the College does not explicitly align its financial forecasts to its overall strategic or operational objectives. The uncertainty of the future impact of Covid-19, combined with the significance of the savings requirements, has increased the risk that financial savings impact the College's ability to meet its strategic objectives.

The College should formally consider the impact of its financial savings requirements outlined in the FFR against its strategic objectives.

# Financial Management

The College reported an adjusted operating surplus of £1.2 million against an initial budget of £0.7 million deficit. We were satisfied that the College's financial monitoring and reporting was clear and consistent throughout the year.

The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board and Finance Committee throughout the year. We are satisfied that the core financial management arrangements at the College were not materially impacted as a result of Covid-19 and the subsequent lockdown.

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## Financial performance and monitoring

The College reported a deficit of £6.5 million for the year (2018/19: £1.7 million). Following an actuarial loss of £10.6 million and loss on disposal of assets of £2 million the College reported total comprehensive expenditure of £17 million (2018/19: £6.3 million income). The College had an operating surplus after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £1.2 million (2018/19: £1.3 million).

The College's 2019/20 budget was approved by the Board in June 2019. The College's financial performance in 2019/20 was significantly impacted by Covid-19. In particular, tuition fee and other course income reduced significantly following the College closing in March. Reduced income was offset by additional government income and related staff savings through the job retention scheme and other savings related to reduced activity from the closure of the College during the lockdown period.

In line with previous years, the College's financial performance was monitored throughout the year by management and the Finance Committee. This process was not impacted by Covid-19, and there is evidence of financial monitoring, reporting and planning by the Board and Finance Committee through the financial year, up to the approval of the 2020/21 final budget in September 2020 and its submission to the SFC in June 2020, albeit this had yet to be approved by the Board.

Throughout 2019/20 management reported budget pressures and variances through its management accounting. These were significant in the year, however we are satisfied these largely related to the unforeseen impact of Covid-19 on College operations on the last four months of the financial year.

### **Impact of Covid-19 on systems of internal control**

Within the Annual Governance Statement, the College has concluded that they have obtained assurance that the system of internal control was operating effectively during the year with no exceptions or issues identified. Through our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work has included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed.

We undertook an initial assessment of the financial control environment as part of our planning work in May 2020, and updated our understanding as part of the yearend audit. Our work has not identified any significant weaknesses in the College's systems of internal control. In particular, we have not identified any significant changes to the design and implementation of controls as a result of the impact of Covid-19 on working arrangements.

### **National Fraud Initiative (NFI)**

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The NFI exercise produces data matches by comparing a range of information held on public bodies' systems to identify potential fraud or error.

During the 2018/19 audit we submitted an assessment of the College's participation in the exercise to Audit Scotland, concluding that the College had actively participated in the NFI exercise and that it is well embedded within the College's Fraud Policy and Response Plan. In line with Audit Scotland requirements we submitted an update report in February 2020. We noted progress continued to be made by the College and that we had no matters to report.

The College has maintained its involvement in the initiative through the lockdown period, most recently submitting its required data through September 2020, and plans to continue to assess all relevant information for investigation in a timely manner.

# Governance and Transparency

Key features of good governance remained in place at the College and have been operating effectively throughout the Covid-19 lockdown. The College responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.

However, two previously identified actions in relation to improving governance arrangements have not been implemented in the year as initially planned and agreed.

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## Annual Governance Statement

The College has demonstrated through the year that it has the key requirements for good governance in place. The key aspects of governance arrangements are required to be disclosed in the College's Annual Governance Statement within the financial statements. We reviewed the statement within the financial statements against the requirements outlined in the SFC's 2019/20 Accounts Direction and our understanding of established governance arrangements.

This includes the requirements to conclude on the College's compliance with the 2016 Code of Good Governance for Scotland's Colleges, or to explain any areas of non-compliance. Our consideration of the statement included:

- ▶ Ensuring that the College has met all requirements of the SFC's 2019/20 Accounts Direction;
- ▶ Ensuring that the content of the statement is consistent with our understanding of the College's governance arrangements and any issues identified during the year; and
- ▶ Ensuring that the College has performed a self-assessment of compliance with the Code of Good Governance for Scotland's Colleges and that this assessment is reflected in the statement.

The Annual Governance Statement noted one area of non-compliance against the Code, in line with previous years, in relation to the position held by the appointed Board Secretary to the College.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the Code. However, the initial draft of the governance statement did not reflect key changes made to governance arrangements in relation to Covid-19 and the impact of lockdown. As part of the audit process we worked with management to update disclosures from elsewhere in the financial statements to ensure they reflected the key developments.



Governance arrangements were quickly developed to ensure that the College was kept informed of the impact of Covid-19. We were therefore satisfied that Board members had sufficient information to continue to fulfil their role.

### **Covid-19 governance arrangements**

Like all other public bodies in Scotland, the College moved to revised governance arrangements at the beginning of the UK lockdown period. Board meetings and other committee meetings scheduled from April 2020 continued via remote working arrangements, and all relevant business continued to be considered as required.

Risks associated with the pandemic have also been considered by the Board. An updated risk register, taking account of Covid-19, was presented to the Board at the June meeting. We are satisfied that key information continues to be disseminated to the Board and other committees on a timely basis.

We have noted two areas where there has been slippage in revising governance arrangements in the year, indirectly related to Covid-19 as management focused on more immediate priorities:

- ▶ Board minutes, agendas and papers, as well as those related to the audit and finance committees, have not been published on the website in a timely manner. As a key aspect of transparent governance arrangements, we have made a recommendation in line with that made last year that this be corrected and updated on a routine basis going forward.
- ▶ There is still no process for ensuring all policies and procedures at the College are reviewed and updated on a timely basis. We have raised another recommendation in line with our recommendation made in previous years.

The College has not implemented two recommendations from our prior year audit reporting, as outlined in Appendix E of this report.

### **Enquiries of those charged with governance**

In line with previous years, we formally wrote to the Chair of the Audit Committee to make inquiries around the College's governance arrangements, including consideration by those charged with governance in respect of compliance with laws and regulations; identification of fraud, error and breaches of internal control; and material litigation and claims. No matters were brought to our attention.

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit Committee. For 2019/20, the internal auditor's opinion notes that 'In our opinion Forth Valley College has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks.'

### **National reports**

It is important that the College has embedded arrangements to ensure that consideration is appropriately given to national reports published by Audit Scotland. At present, national reports are reviewed by management and the impact on the College is considered. These will be presented to the Board or relevant committee where necessary. The most recent reports considered include the SFC's *Review of Coherent Provision and Sustainability*.

### **EU withdrawal**

There continues to be a significant interest in public bodies' preparedness for EU withdrawal. We are aware that management has continued to consider and monitor the arrangements and risks around the UK's departure from the EU and the upcoming end of its transition period. The College is aware that there continues to be a potential for disruption to operations and costs arising from Brexit and continues to review any new information and guidance provided by bodies such as the Scottish Government and the SFC as it is published. Management is confident at this stage that the College has mitigated the immediate direct impacts of Brexit on its operations and funding.

### **External effectiveness review**

All colleges are required to undertake an external effectiveness review (EER) at least every 3 years, in accordance with the Code of Good Governance for Scotland's Colleges. The College are due to undertake this exercise during 2020/21 and we have confirmed with management this will commence in January 2021.

# Value for Money

The College has a strategic plan for the period 2017-2022, 'making learning work for all'. The College has continued to report its performance against its strategic plan, including key measures within the financial statements. While the College's performance in the year has been impacted by Covid-19, the College's arrangements for considering value for money have not been altered.

We have no matters to report in respect of the College's arrangements around procurement or staff severance.

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## Performance Reporting

The College has a strategic for the period 2017-2022, 'making learning work for all'. The plan identifies the six key strategic priorities for the College in order to build on its prior successes and remain at the forefront of college provision in Scotland.

The College's performance in the year against its strategic objectives, including the performance indicators it measures as part of this, were impacted significantly as a result of Covid-19. However, the College continued to monitor its performance throughout the 2019/20 financial year, including after the national lockdown in March, and has reported on the key aspects of its performance in its financial statements. The reporting includes:

- ▶ Summary of financial performance in the year against key performance indicators, including comparatives for prior year;
- ▶ Summary of performance against each strategic priority for the College, including the impact of Covid-19 and future plans; and
- ▶ Performance in relation to key student targets around recruitment, retention and experience in the year.

The College has a dedicated area of the website for Quality and Performance Information where it publishes its performance indicators annually. At the time of drafting this report the 2019/20 performance indicators have not yet been published, in line with previous years this will be published in January 2021 after approval by the Board.

### **Sale of old Falkirk Campus**

We considered the arrangements during the year to ensure the College had adequately considered value for money throughout the process of agreeing the sale of the old Falkirk campus at £2 million, compared to the original agreed sale value of £4 million.

We obtained a report on the options available to the College presented to the Board in March 2020. The report was comprehensive and outlined the options available to the College, including the pros and cons of all options and its impact on the overall value for money to the College. The Board approved the sale at the revised price with subsequent other clarifications related to the future plans for the sale. The minutes of the meeting demonstrated robust discussion on the options and the conclusion of the Board.

### **Voluntary severance scheme**

During 2019/20, the College accounted for 12 payments totalling £223,000 to employees who left the College under voluntary severance agreements or redundancy. We confirmed that the College had followed the procedures outlined within SFC's *Guidance for seeking approval for severance schemes and settlement agreements*. We performed detailed testing over the payments made and identified no exceptions or omissions from the disclosures in the remuneration report.

### **Procurement arrangements**

We considered the College's procurement arrangements to support the achievement of value for money, specifically whether arrangements had been amended as a result of challenges related to Covid-19, such as the inability to implement designed approval arrangements. We are satisfied that procurement arrangements throughout the financial year continued to be reported and scrutinised by the Finance Committee.



## Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit and risk committee

D - Action Plan

E - Follow up of prior year recommendations

F - Timing and deliverables of the audit

G - Summary of audit differences

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit, risk and governance committees or equivalent) in monitoring these arrangements.

### Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

### Best Value

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

# Appendix B: Independence and audit quality

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

## Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated May 2020.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the College consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the Board meeting in December 2020.

## Audit Fees

	2019/20	2018/19
<b>Component of fee:</b>		
Auditor remuneration - expected fee	£21,600	£21,110
Additional audit procedures (see below)	£6,000	£1,843
<b>Audit Scotland fixed charges:</b>		
Pooled costs	£1,230	£1,220
Contribution to Audit Scotland costs	£1,180	£1,280
<b>Total fee</b>	<b>£30,010</b>	<b>£25,453</b>

\* The expected fee for each body, which for 2019/20 has been set centrally by Audit Scotland, assumes that it has sound governance arrangements and these are operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

The 2019/20 audit required additional audit procedures to address; the need for a reassessment of all audit risks and the additional scrutiny around financial statement disclosures impacted by the direct and indirect consequences of Covid-19; additional audit specialist and manager work around the accounting for the valuation of the College estate and its share in the Falkirk Council Pension fund.

Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2020 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020). This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the College since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920>.



# Appendix C: Required communications

Required communication	Our reporting to you
<p><b>Terms of engagement / Our responsibilities</b></p> <p>Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan Audit planning addendum</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan Annual Audit Report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	<p>Annual Audit Report</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>

Required communication	Our reporting to you
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>No significant matters have been identified.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p><b>Subsequent events</b></p> <p>Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p><b>Material inconsistencies</b></p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>

# Appendix D: Action Plan

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

## Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
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We have no new recommendations to raise in respect of our 2019/20 audit work. All recommendations relate to actions agreed in 2018/19 which have not been fully implemented in this financial year. These, along with management's responses and revised timeframes for implementation, are outlined in appendix E.

# Appendix E: Prior Year Action Plan

This action plan summarises specific recommendations included within the 2019 Forth Valley College Annual Audit Report. We have graded these findings according to our consideration of their priority for the College or management to action.

## Classification of recommendations

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

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

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

No .	Findings and recommendation	Management response	2020 audit update
1	<p>The SORP will be revised with effect from 2019/20.</p> <p>The College should perform an impact assessment on the application of the revised SORP in 2019/20.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Impact assessment will be carried out early in the new year.</p> <p>Responsible officer: Head of Finance.</p> <p>Implementation date: March 2020.</p>	<p>Management did not initially prepare a formal SORP impact assessment as part of the 2019/20 financial statements preparation process. Management advised that they did complete a review, though this was not initially documented.</p> <p>Any changes required to the material financial statement disclosures were identified and addressed through the audit review of the draft financial statements, and through discussions with management we confirmed there were no material accounting changes required due to the update to the SORP or FRS 102.</p> <p>Monitoring and implementing changes to accounting frameworks and related SORPs, Directions and other statutory guidance is a key requirement of good financial management. Management should ensure these matters are addressed more formally going forward.</p> <p style="text-align: right;"><i>Grade 3</i></p> <p><i>Management response: We consider this action to be closed and do not accept there is an ongoing action. Monitoring &amp; implementing changes to accounting frameworks is a given. There are no current changes which require a review. If a review is required the level of formality will depend on the level of changes.</i></p>

No	Findings and recommendation	Management response	2020 audit update
2	<p>While the FFR submission process itself is robust, currently the College does not explicitly align its financial forecasts to its overall strategic or operational objectives going forward.</p> <p>Good practice around financial planning should include alignment of financial plans to the College's overall strategy to ensure they are complimentary and that the College has sufficient resources to meet its objectives.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Planning is already underway on developing a 5 year financial plan. A paper on this was presented to Finance Committee in September 2019.</p> <p>Responsible officer: VP Finance &amp; Corporate Affairs.</p> <p>Implementation date: June 2020.</p>	<p>We have outlined the most recent position with regards to financial planning in the financial sustainability section of our wider scope reporting.</p> <p>The impact of Covid-19 was significant on financial planning arrangements in the year. A financial plan has been prepared for future years and submitted to the SFC, however in line with previous years this has not been fully aligned to strategic objectives for the College. In the context of Covid-19 and the challenging financial environment faced by all public bodies, robust alignment of financial and strategic plans is critical.</p> <p style="text-align: right;"><i>Grade 2</i></p> <p><i>Management response: We believe the FFR aligns to the College's strategic plans. We will discuss with the Finance Committee the level of additional information required and will implement changes.</i></p> <p><i>Responsible officer: VP Finance &amp; Corporate Affairs.</i></p> <p><i>Revised implementation date: June 2021.</i></p>

No	Findings and recommendation	Management response	2020 audit update
3	<p>In previous years we had noted that the College published Board and standing committee agendas, minutes and papers on their website in a timely manner to ensure transparency around governance arrangements. However, in 2019 this process has not been completed in the same timely manner.</p> <p>The College should ensure Board and key committee minutes and papers are published on the College website in a timely manner as part of good governance practice.</p> <p style="text-align: right;">Grade 3</p>	<p>All outstanding papers now published. Going forward papers will be published in a timely manner.</p> <p>Responsible officer: Corporate Planning &amp; Governance Officer</p> <p>Implementation date: November 2019</p>	<p>At the time of our yearend audit work we noted that Board, Audit and Finance committee agendas, minutes and papers had not been uploaded for any 2020 meetings.</p> <p>Publication of these meeting minutes is a key aspect of ensuring transparency around College governance arrangements. Management should address this in the near future and ensure a process is put in place for its timely completion going forward.</p> <p style="text-align: right;">Grade 3</p> <p><i>Management response: We recognise that this has not been done and this was due to pressures from Covid-19 and was not considered a priority.</i></p> <p><i>Responsible officer: Stephen Jarvie, Corporate Planning &amp; Governance officer.</i></p> <p><i>Revised implementation date: March 2021.</i></p>
4	<p>The College does not currently have a process to effectively monitor all policies and procedures, in order to ensure they are appropriately reviewed and updated in a timely manner or when factors trigger required changes.</p> <p>The College should ensure a system for recording all existing policies and procedures is created and monitored to ensure they are subject to routine review and appropriately approved by the relevant governance body as required.</p> <p style="text-align: right;">Grade 3</p>	<p>Register of policies will be implemented and maintained.</p> <p>Responsible officer: Corporate Planning &amp; Governance Officer</p> <p>Implementation date: March 2020</p>	<p>At the time of our yearend audit work we noted that there was still no complete list of policies and procedures or a robust process for ensuring they are reviewed and updated on a timely basis.</p> <p style="text-align: right;">Grade 3</p> <p><i>Management response: This was delayed due to pressures as a result of Covid-19.</i></p> <p><i>Responsible officer: Stephen Jarvie, Corporate Planning &amp; Governance officer .</i></p> <p><i>Revised implementation date: March 2021.</i></p>

# Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle.

	Audit Activity	Deliverable	Timing
<b>Feb</b>	➤ Review progress of the NFI exercise	Submit NFI questionnaire	February 2020
<b>Mar</b>	➤ Audit planning and setting scope and strategy for the 2019/20 audit	Annual audit plan	May 2020
<b>MAY</b>			
<b>JULY</b>	➤ Walkthrough visit	Completion of internal documentation around design and implementation of key controls	July 2020
<b>SEPT</b>	➤ Audit update to account for the impact of Covid-19 on the audit risk and planning process	Audit planning report addendum	September 2020
<b>OCT</b>	➤ Year-end substantive audit fieldwork on unaudited financial statements	Audited financial statements	October 2020
	➤ Conclude on results of audit procedures and finalise Annual Audit Report	Issue Annual Audit Report	December 2020
<b>DEC</b>	➤ Issue opinion on the College's financial statements	Submit Audit Scotland Minimum dataset request	

# Appendix G: Errors identified during the audit

The tables below set out the adjusted and differences identified during the audit above our reporting threshold. There were no unadjusted differences identified throughout the audit process.

## Adjusted differences

No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Reclass of McCloud adjustment balance from Current Service Costs to OCI</i>	185,000	(185,000)	-
	<b>Total</b>	<b>185,000</b>	<b>(185,000)</b>	<b>-</b>



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