Annual Audit Report

to the Board of Management and the Auditor General for Scotland

South Lanarkshire College

Year ended 31 July 2020

MAZARS

CONTENTS

This report has been prepared in accordance with our responsibilities as appointed auditors as set out in Audit Scotland's Code of Audit Practice. Reports and letters prepared by the auditor and addressed to South Lanarkshire College are prepared for the sole use of South Lanarkshire College and we take no responsibility to any member or officer in their individual capacity or to any third party.

MAZARS

Mazars LLP
Apex 2
97 Haymarket Terrace
Edinburgh
EH12 5HD

The Audit Committee
South Lanarkshire College
College Way
East Kilbride
Glasgow
G75 0NE

2 November 2020

Dear Audit Committee Members

Annual Audit Report – Year ended 31 July 2020

We are pleased to present our Annual Audit Report for the year ended 31 July 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 22 May 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the continued challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me.

Yours faithfully

Lucy Nutley
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of South Lanarkshire College ('the College') for the year ended 31 July 2020, and forms the basis for discussion at the Audit Committee meeting on 2 November 2020.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice ('the Code') issued by Audit Scotland. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We issued an unqualified opinion, without modification, on the financial statements. As outlined in more detail in section 2, we have included an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainty disclosed in the financial statements in relation to the pension fund property assets.

Opinion on regularity

We issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.

Opinion on other requirements

We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.

Wider scope work

We concluded as follows against the wider scope dimensions for smaller bodies:

- South Lanarkshire College has adequate financial planning arrangements in place. It is cognisant of potential future funding changes and uncertainties and has appropriate plans for sustainable service delivery in the medium-term; and
- The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board and are reflected in their governance statement

Misstatements and internal control recommendations

As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have identified no recommendations for the improvement of internal controls at the College during the current year audit.

There have been no misstatements identified during the current year audit.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have completed our work on the financial statements and wider scope work for the year ended 31 July 2020.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in May 2020. As part of our Audit Progress Report in August 2020 we provided details of further work we intended to perform around the governance arrangements for the impact of Covid-19. We have not made any further changes to our audit approach.

Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever-changing business needs. Our aim is to add value to South Lanarkshire College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

1. EXECUTIVE SUMMARY (CONTINUED)

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set materiality at the planning stage of the audit at £356k using a benchmark of 2% of gross expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £374k, using the same benchmark.

Threshold	Initial threshold £'000	Final threshold £'000
Overall materiality	356	374
Performance materiality	285	299
Trivial threshold for errors to be reported to the Audit Committee	11	11

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors

Performance Materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherent risk level assessed. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

2. AUDIT OF THE FINANCIAL STATEMENTS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. We have not identified any further significant risks during our audit work.

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business;
- The College's interaction with the National Fraud Initiative (NFI) exercise and the outcomes; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Satisfactory assurance has been gained over the presumed risk of management override of controls.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Revenue recognition

Description of the risk

Under International Standards of Auditing there is a presumption that there is a significant risk of fraud and error in the timing of revenue recognition.

The risk above applies only to the non-grant income generated by the College. The risk has been rebutted in relation to the grant income received by the College, given the highly regulated nature and therefore, low inherent risk of this income.

We consider that there is also a higher risk of non-recoverability of debts arising from the impact of COVID-19 on the economy and therefore expected credit loss provisions should be carefully considered, using forward looking data where appropriate.

How we addressed this risk

We addressed this risk through performing audit work over:

- the design and implementation of controls management has in place to ensure income is recognised in the correct period;
- cash receipts around the year end to ensure they have been recognised in the right year;
- testing material year end receivables;
- the judgements made by management in determining when income for services is recognised and whether the criteria for recognising provisions are satisfied; and
- expected credit loss provisions applied to receivables at the year end, considering the appropriateness of judgements made by management.

Audit conclusion

Satisfactory assurance has been gained over the presumed risk of revenue recognition.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

Valuation of pension liabilities

Description of the management judgement

The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme.

The College's share of the SPF's underlying assets and liabilities is identifiable and a net liability is recognised in the accounts.

Given the scale of the liability recognised in the accounts, a misstatement in the reported position could be material to the financial statements. The movement in the valuation of the liability could be made more volatile by the impact of COVID-19.

How our audit addressed this area of management judgement

We considered the College's arrangements, including the existence of any relevant controls, for making estimates in relation to pension entries within the financial statements.

We also considered the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts.

Audit conclusion

SPF have disclosed a 'material valuation uncertainty' (MVU) in their audited financial statements with regards to the value of property investments held at 31 March 2020. This relates to limited market data being available at that time as a consequence of COVID-19. We conclude the South Lanarkshire College share of these assets is considered material and as such disclosure to highlight the MVU should be included within the College's financial statements. Management have recognised this material valuation uncertainty in the notes to the financial statements and as such we intend to include a corresponding emphasis of matter paragraph within our Audit Report.

There have been no other significant findings arising from our review of the defined benefit liability valuation and disclosures in the financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Valuation of land and buildings

Description of the management judgement

The College holds a significant level of land and buildings – reporting a net book value of £33m as at 31 July 2020.

The College has adopted a formal revaluation policy of an external valuation every three years. A valuation was performed as at 31 July 2018, there was no revaluation performed in the current year.

The College policy meets the requirement of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value.

The College is required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date. Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements.

The College is required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date. The current year assessment will need to take into account the impact that COVID-19 may have had on property valuations, given that recent Royal Institute of Chartered Surveyors (RICS) guidance indicates that material uncertainties are likely due to lack of reliable and contemporary market and cost data.

How our audit addressed this area of management judgement

We undertook a range of substantive procedures including:

- Review of management's assessment as to whether the value still reflects the 2018 valuation;
- Review of the reconciliation between the College's asset register and general ledger;
- Considered the College's impairment review process for land and buildings; and
- Review of the College's assessment of potential impairment as a result of COVID-19

Audit conclusion

Our audit work has provided satisfactory assurance over the valuation of the land and buildings. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Area of focus
Enhanced risks can arise from significant events occurring during the period under review. There has been a change in Principal during the reporting period that will require to be reflected in the governance statement and remuneration report.

Governance change

Description of the area of focus
Stewart McKillop, the former Principal, retired during the year and left the College on 28 February 2020.

Stewart was replaced by Aileen McKechnie who was appointed as Principal on 2 March 2020.

How our audit addressed this area of focus

We considered the procedures in place to ensure the continued governance of the college concerning:

- Arrangements put in place to ensure an adequate handover of governance that gives sufficient assurance to the newly appointed Principal surrounding the 2019/20 financial statements and that these arrangements are adequately disclosed in the annual governance statement; and
- Whether the disclosures required in the financial statements, including with regards to remuneration, are complete and accurate.

Audit conclusion
Our audit work has provided satisfactory assurance over the disclosures in the annual report regarding the change in Principal. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Performance

The College is required to report financial performance under the FE/HE SORP, resulting in the reported deficit of £3,445k in the Statement of Comprehensive Income. However, as a central government body, the College is also required under the Accounts Direction from the Scottish Funding Council (SFC) to report financial performance as an 'adjusted operating position'. We set out these required positions below.

FE/HE SORP Basis

The table below sets out the operating surplus for the year under the FE/HE SORP.

	2019/20 £'000	2018/19 £'000
Operating income	18,045	17,789
Staff costs	13,953	12,424
Operating expenditure	4,753	5,146
Operating (deficit)/surplus for the year (FE/HE SORP basis)	(661)	219

Operating income has increased by £256k in the year. Much of the increase is due to funding for National Bargaining and an increase in credits and price per credit. The College also received funding of £180k from the Coronavirus Job Retention Scheme as a result of 44 members of staff being furloughed. There have also been reductions where income has been deferred into 2020/21 for example, due to training that could not be undertaken due to the Covid-19 pandemic.

Staff costs have increased significantly by £1,528k during the year. £496k of the increase relates to pensions costs, as the College contribution rates increased from 17.2% to 23% in September 2019 for lecturing staff. The remaining increase is as a result of the negotiated pay settlement as well as the apprentice levy. This increase is reflective of the sector as a whole.

Overall operating expenditure has decreased by around £393k, with depreciation and interest expenditure increasing by £43k and £17k respectively. Therefore, other operating expenditure has decreased by around £453k in the year. £312k of the reduction relates to premises which is due to a reduction in dilapidations expenditure in the year (with £131k being expensed in the prior year while all expenditure was capitalised in the current year) and the College being closed for a period of time. There were other reductions seen in teaching, admin and FE and HE childcare are due to costs being based on student requirements which dropped as a result of the Covid-19 pandemic. These decreases are reflective of the sector as a whole. Costs were being actively managed throughout the period.

The above results demonstrate that the College is operating sustainably within its funding allocation, with the current climate being considered, and the following points should be highlighted:

- The College met its student credit target confirming the level of funding in the financial statements;
- The College achieved its financial targets in line with its plan;
- The College continued to operate amid the pandemic and meet the requirements of its students where possible.

Adjusted operating position

The table on the previous page sets out the financial position in accordance with the SORP requirements. The table below reflects the 'adjusted operating position' as required by the Accounts Direction set by the SFC. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions. Full details of the adjustments included are shown on page 14 of the accounts.

	2019/20 £'000	2018/19 £'000
Surplus before other gains and losses	(661)	219
Add back:		
- Depreciation (net of deferred capital grant release)	244	233
- Non-cash pension adjustment (service cost)	650	652
- Non-cash pension adjustment (interest cost)	77	47
- Non-cash pension adjustment (early retirement provision)	6	19
Adjusted operating surplus	316	1,170

The Accounts Direction issued by the SFC for 2019/20 required Colleges to submit the adjusted operating position calculations with draft accounts to the SFC for review before the accounts are signed off. This is in the process of being confirmed by the College.

As can be identified above, the College shows a stable position when taking into account the movements as prescribed by the SFC on a consistent basis in both 2019/20 and 2018/19. The College has consistently generated an adjusted operating surplus in prior years, and internal financial reporting indicates that it is in a strong position going forward.

Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual (FReM) 2019/20, appropriately tailored to the College's circumstances.

The draft annual report and accounts were received from the Financial Accountant on 25 September 2020 and were of an acceptable quality with some disclosures and notes to be updated for outstanding information. Our fieldwork commenced on 29 September 2020.

Producing quality supporting working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers provided for audit were helpful and were provided in a timely fashion. Staff were very responsive to our requests during the audit.

Significant difficulties during the audit

Despite the undoubted impact of the pandemic on both the preparation and completion of the draft accounts, which were completed for audit in line with agreed timetables, as well as our audit work, during the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We would like to express our thanks to management and officers for their co-operation throughout the audit.

3. WIDER SCOPE

Our approach to wider scope work

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

In recognition that audit work should be risk based and proportionate to the nature and size of the audited body, the Code allows auditors to determine whether application of the full wider scope work is appropriate in smaller bodies. At the planning stage, we considered that the wider scope work at South Lanarkshire College should be carried out under the small body provisions of the Code. We have reached this conclusion through our assessment of:

- the relative size of the College;
- the relative simplicity of the College's functions; and
- the College's risk profile.

In line with the Code requirements, our work has therefore focused on financial sustainability and the governance statement. This is concluded on in the following pages.

The Covid-19 pandemic impacted our risk assessment with regards to our approach to wider scope work. Specifically, we deemed the financial sustainability of the College to be a significant risk. This is discussed in further detail below.

In 2019/20 we have also considered the following risk areas as they relate to the College:

- Exit from the European Union
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

We do not consider that any of the above constitute a significant risk for the College at this point, but will continue to monitor.

National Fraud Initiative

We have also considered the College's input to the 2018/19 National Fraud Initiative which was finalised during the financial year.

The College had a small number of matches which were not indicative of any fraudulent activity.

3. WIDER SCOPE
FINANCIAL SUSTAINABILITY

Dimension

Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

Our conclusion

South Lanarkshire College has adequate financial planning arrangements in place. It is cognisant of potential future funding changes and uncertainties and has appropriate plans for sustainable service delivery in the medium-term.

Identified significant risks to our wider scope work

As part of our planning procedures we considered whether there were significant risks that would impact on any of the areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope work and how we addressed the risk.

Financial sustainability

Description of the risk

The COVID-19 pandemic has resulted in the temporary cessation of operations of public sector organisations, including colleges, although the College is continuing to deliver as many online courses as possible and is engaging with the student population regularly throughout this period.

There is significant increased uncertainty around current and future revenue for colleges, and increased costs as a result of managing the impact. As a result of the pandemic, the College is now expecting to report a deficit for the year to 31 July 2020, although they expect to have sufficient cash to meet liabilities as they fall due in this period. The financial plans set by the College in prior years will require to be re-set with new funding assumptions as and when they become clearer.

Update to risk:

The original risk assessment in May 2020 was during the period of the College's closure, when plans for re-opening were in the early stages of being developed. There was little certainty around sector funding for future years. The College has now re-opened, and the SFC have issued assumptions on which to base updated financial plans.

How we addressed this risk

We addressed this risk through performing audit work over:

- Financial plans prepared by management, considering whether assumptions are appropriate; and
- How management have considered the longer term implications of the Covid-19 pandemic on the College.

Audit conclusion

The College is cognisant of the financial sustainability concerns for the FE College Sector and the uncertainty of funding in future years. They have developed plans, based on SFC assumptions, that should see the College return to reporting surpluses in the medium-term.

No significant issues have arisen through our work on the significant risk of financial sustainability.

3. WIDER SCOPE
FINANCIAL SUSTAINABILITY

Dimension
Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

Our conclusion
South Lanarkshire College has adequate financial planning arrangements in place.

Financial Planning

Throughout the year, the College's quarterly monitoring reported a small financial surplus until the closure of the College premises in March 2020 as a result of the Covid-19 pandemic restrictions enforced nationally. The budget was updated in April 2020 to reflect this, and at this point, a deficit was forecasted. The impact of Covid-19 spanned the rest of the academic year, however, the College did manage to fulfil their non-practical courses remotely. Despite this, a deficit was reported before gains and losses for 2019/20.

The College has an unsecured overdraft facility of £300k with The Royal Bank of Scotland which was not used during the year. The College intends to maintain the overdraft facility in the event that it may be required in the future.

A review of the minutes of the Finance Committee and onwards to the Board demonstrated effective challenge of the financial position by members throughout the year.

The Scottish Funding Council (SFC) now requires colleges to prepare three-year financial forecasts (a change from six as a result of ongoing uncertainties arising from the Covid-19 pandemic), with the current forecasts running from 2019/20 to 2022/23. The SFC has been working with sector representatives to develop a set of common assumptions that colleges should use for longer-term financial forecasting. These assumptions are used to produce a financial forecast return (FFR) to be submitted to the SFC. The College use the FFR as a basis for their financial strategy planning.

The College has a 4 year plan, which exceeds the SFC requirements, to provide further comfort over financial sustainability. There are inherent uncertainties around SFC funding for the College and student support funds, coupled with European funding uncertainties (EU funding currently makes up 10% of the College's annual income), which provide difficulties in forecasting accurately.

The assumptions set out by the SFC have been used for SLC's forecast as shown below:

	Actual 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000
Total income	18,045	19,133	18,722	19,045	18,445
Staff costs	13,953	13,528	13,685	14,142	14,514
Total expenditure	4,753	5,592	4,785	4,848	4,094
(Deficit)/Surplus before other gains & losses	(661)	13	72	55	(163)

The plan was based on:

- Income assumptions provided by the SFC;
- A largely flat income level for other/alternative income levels at a predicted annual increase of 1% – however the college is planning for a sustained growth in non-SFC income and is actively trying to improve their offering. The drop in 2021/22 is due to no collective bargaining income being included;
- Increase in operational expenditure from 2020/21 to 2023/24 from £18.2m to £19m; and
- Salaries rising from 74% to 76% of total expenditure over the period from 2020/21 to 2023/24.

3. WIDER SCOPE
FINANCIAL SUSTAINABILITY (CONTINUED)

Financial planning (continued)

The College has historically and consistently produced an operating surplus each year, and has a strong basis for financial management. At the point of writing, there are no indications of a significant drop in learners which may indicate that the College would not meet Credit targets in the coming and subsequent years. Work continues on an evolving teaching model, with mixed face-to-face and virtual learning and expansion of the working day to enable the numbers of students to be maintained, whilst maintaining social distancing requirements.

The College continues to show healthy cash balances, which are predicted to be £800k by the end of 2023. The year end cash balance was higher than usual at £1.9m due to various timing differences. The main reason for the high value was due to backlog maintenance funding received in March 2020, but due to Covid-19 restrictions the work has been delayed post 31 July. In addition, they received a significant debtor balance earlier than usual, while they also will be required to repay £351k of unspent student support funds to the SFC. Per the FFR, they aim to have a cash neutral operating position, whereby £800k is the optimum level of cash to hold.

During the lockdown period, the finance team monitored cashflow on a regular basis to ensure liabilities could be met when they fell due. They ensured they had the ability to continue to make payments with the appropriate approval methods in place.

The College maintain an ongoing overdraft facility which although was not required during the year, management felt it was prudent to retain given the uncertainties in the current climate.

Asset Management and Estates Strategy

An Estates Strategy 2009-2019 is in place. It was introduced to complement the College strategic and operational plans. The Estates Strategy aims to support the current status and condition of the building and wherever possible recognise opportunities for improvement. It is reviewed annually and reported to the Senior Management Team and the Board. We noted in our 2018/19 Annual Audit Report that this should be updated during the 2019/20 year. This was not updated in the current year due to Covid-19 and a number of staff changes. This will be taken forward by the new Deputy Principal in early 2021.

In lieu of an up to date Estates Strategy, an Estates Report is presented to each Finance and Resources committee to inform members of the current position. This report is then considered at the next Board Meeting. The College use the SFC backlog maintenance report, along with their own records and knowledge, to ensure the site is meeting relevant building safety standards.

National estates survey

Gardiner & Theobald were appointed by the Scottish Funding Council in January 2017 to provide a summary of the conditions of the estates within the Scottish Further Education sector, being the first independent review of the college estate in Scotland for 10 years. Across Scotland the estimated net total backlog of maintenance and renewals cost is £163 million excluding contingencies, any related operational and management costs of the colleges, professional fees, VAT, optimism bias and inflation allowance. When taking these items into account, the resulting total gross estimated backlog is £363 million. 10% of these costs were defined as urgent, requiring action within the next year, with the majority of the costs requiring action within 3-5 years.

The Scottish Funding Council is working with the Scottish Government and Scottish Futures Trust to produce a framework for college sector estate development to manage competing demands for estate development.

The South Lanarkshire College survey showed an estimate of £1.7 million of costs over the 5 year period from 2018-19 to 2022-23, with £680k being identified as urgent, for example roof repairs. Funding was made available from the SFC for this specific expenditure that was incurred in 2019/20. During the year, £463k of backlog maintenance funding was received by the College, which has been spent in line with agreements made with the SFC on what the funding could be used for. Further backlog maintenance expenditure has been factored into the 3 year plan.

We consider that appropriate attention is given to the estate and assets, and that their maintenance is factored into long term plans and discussions.

3. WIDER SCOPE
GOVERNANCE STATEMENT

Dimension

Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Our conclusion

South Lanarkshire College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board, that are reflected in the governance statement

Key area of focus

As part of our planning procedures we considered whether there were any areas of our wider scope work that would warrant a more detailed review. The result of our review is as noted below.

Covid-19 impact and actions

Description of the area of focus

Considering the impact of Covid-19 on the College and steps taken to ensure continued appropriate governance was in place throughout.

How our audit addressed this area of focus

We considered the following:

- Decision making processes around closure of the College, and communication to those affected;
- Board and committee reporting throughout lockdown and on an ongoing basis, including the administration of any ad hoc meetings required to react to the fast-moving situation;
- Management arrangements for distance learning, and ongoing communication protocols with students and staff, including consideration of wellbeing; and
- Processes in place for re-opening to ensure adherence to current Government guidelines.

Audit conclusion

The College closed on Thursday 19 March, with face-to-face classes having finished on Tuesday 17 March. The Chair and Principal took the decision to move from the standard calendar of Board and sub-committee meetings, and instead move to a programme of 2-weekly virtual Board meetings. Each meeting focussed on a key area of the College, thus, taking the role of sub-committees to the Board during this time. This decision ensured that the Board of Management were regularly updated on the current situation and plans to re-open the College and the ability to complete student learning experiences.

The College re-opened to some students in August 2020, with the 2020/21 academic year beginning on 7 September 2020. Face-to-face teaching is reduced, remote working and social distancing remains in place. The College continues to review the basis of education provision, ensuring adherence with government guidelines.

General governance arrangements

This considers the standard governance arrangements in place at the College, the financial and performance reporting to the Board, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also attended Audit Committees during the year.

In March 2020, the Principal changed from Stewart McKillop to Aileen McKechnie, following Stewart's retirement.

During 2019/20, the Board consisted of 17 members, 10 female (including the principal) and 7 male. The Board meets with the objective of the Gender Representation on Public Boards (Scotland) Bill which was introduced by the Scottish Parliament in June 2017 with an implementation date of 2022.

3. WIDER SCOPE
GOVERNANCE STATEMENT

General governance arrangements (continued)

The key committees comprise, and are chaired by, Board members, with each also containing the Principal, with the exception of the Audit Committee and the Remuneration Committee. In addition, the Chair of the Board is also not permitted to be a member of the Audit Committee. The Principal and the Chair of the Board can attend Audit Committee meetings, which they do. Appropriate College officers attend committees and present reports as required. We note that during the year, the Chair of the Board was also the Chair of the Finance Committee on an interim basis, as allowed under the Scheme of Delegation. A Finance Committee Chair is now in post.

The Board and each of the various committees (including the Audit Committee) meet 4 times a year. Minutes of these meetings are published to the College's website in a timeous fashion following the meetings, showing transparency. Committee papers are detailed and provide a good overview of the content of the meetings. Reflecting regional arrangements, minutes and meeting summaries are provided to the corresponding committee of the Lanarkshire Board.

Covid response and governance

The College closed on Thursday 19 March, with face-to-face classes having finished on Tuesday 17 March. Faculty and management kept in regular contact with students and with each other through MS Teams, College VLE, Office 365, text tools, Youtube, email, text messages. There were regular updates on the College Social Media platforms, and a dedicated page on the website with relevant and up to date information.

The Chair and Principal took the decision to move from the standard calendar of Board and sub-committee meetings, and instead move to a programme of 2-weekly virtual Board meetings. Each meeting focussed on a key area of the College, thus, taking the role of sub-committees to the Board during this time. There was a cycle of updates on Finance, HR, Audit and Risk as well as detailed updates on the College response to the Covid-19 pandemic and plans for resuming face-to-face teaching. While these meetings did not follow the same formal processes as previous meetings, minutes were taken, ensuring due governance was in place. This schedule of meetings was in place until June 2020 and since August 2020, meetings have reverted to the original format and timetable, and are now delivered in a blended way (part on-campus, part virtual).

A formal programme management approach was introduced to support the College's response to the Covid-19 pandemic, supported by the use of RAID logs (Risks, Assumptions, Issues and Dependencies), which involved every area of the College identifying risks and mitigating actions. This allowed Heads of Faculties and Departments to plan for continuity of service in full consideration of robust risk assessment and required mitigation. The RAID logs were updated on a weekly basis in response to the rapidly changing environment and was a key basis for decision-making about the safe re-opening of the College campus. Other useful information was provided by the separate surveys of staff and students which had taken place in June.

The Scottish Funding Council re-designated some existing student hardship funds (travel and childcare) to provide additional support for digital poverty to provide laptops to those students who were unable to participate in remote learning. As the College moved to virtual learning and teaching during the period of lockdown, College laptops were also offered out to students on a loan-basis. Staff were offered CPD on digital teaching to ensure they were confident in their teaching methods using this new medium.

The College produced a 'Guide to Good Health and Wellbeing during Covid-19' document, highlighting the importance afforded to this by the College and Board of Management. The College carried out separate surveys on both staff and students to better understand their experience during lockdown and the results for students were that were that 91% felt they had adequate support and 89% felt their health was adequately supported during lockdown.

The College re-opened to some students in August 2020, with the 2020/21 academic year beginning on 7 September 2020. Face-to-face teaching is reduced, supplemented by a blended approach to teaching and learning; a blend of remote working has been put in place, supported by all appropriate health and safety measures, including physical distancing. The College continues to review the basis of education provision, ensuring adherence with government guidelines. The College has identified four priorities, which are being monitored by the Board, for their continued response to the Covid-19 pandemic:

- Health, safety and wellbeing;
- Financial sustainability;
- Contribution to social and economic recovery; and
- Effective communication.

3. WIDER SCOPE
GOVERNANCE STATEMENT

Governance Statement

As part of our audit we have read the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework.

The governance statement confirms the college's compliance with the 2016 Code of Good Governance for Scotland's Colleges.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. We also consider that the governance statement has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by Scott-Moncrieff (Azets). Internal audit have attended Audit Committees throughout the year and have produced a number of reports to support the overall Head of Internal Audit Opinion. The overall opinion was that the College *'In our opinion South Lanarkshire 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.'*

4. OUR FEES

Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Audit Strategy Memorandum, presented to the Audit Committee in May 2020. Having substantially completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2019/20	Final fee 2019/20
Auditor remuneration	£13,180	£13,180
Pooled costs	£750	£750
Contribution to Audit Scotland costs	£720	£720
Total Fee	£14,650	£14,650

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

APPENDIX A
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.