Edinburgh College

2020/21 Annual Audit Report

AUDIT SCOTLAND

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

December 2021

Contents

Key messages

2020/21 annual report and accounts

1 The financial statements of Edinburgh College give a true and fair view of the state of the college's affairs as at 31 July 2021 and its deficit for the year.

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

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

Financial management and sustainability

4 Edinburgh College reported an operating deficit of £6.6 million in 2020/21, an increase of £2.0 million from last year. Its 'adjusted operating position' was a surplus of £0.9 million, £0.4 million more than last year, and better than the projected break-even adjusted operating position due to a range of factors such as the additional funding from the Scottish Funding Council and additional income from the job retention scheme.

5 The College has effective financial management arrangements and Covid-19 did not have a significant impact on its systems of internal control which are operating as expected. The College's arrangements and controls for recording and processing £1.9 million of Covid-19 support funding were appropriate.

6 The College's medium-term financial plan continues to forecast a challenging financial position, with break-even over the next three years requiring cumulative savings of between £1 million and £2.8 million. The College recognises the need to keep its financial position under review. It is planning to refresh the financial plan once the Board agrees its new strategic priorities.

Governance, transparency and value for money

7 The governance arrangements are appropriate, and the College adjusted well to the impact of Covid19. The College made further improvements in cyber security.

8 The College has developed and implemented an appropriate performance management framework. During 2020/21 the College maintained service performance in most areas despite Covid-19 but there was a decline in full-time attainment.

Introduction

1. This report summarises the findings arising from our 2020/21 audit of Edinburgh College (the College).

2. The scope of our audit was set out in our Annual Audit Plan, presented to the 26 May 2021 meeting of the Audit and Risk Assurance Committee. This report comprises the findings from:

- an audit of the College's annual report and accounts
- consideration of the wider dimensions that frame the scope of public audit, set out in the Code of Audit Practice 2016.

3. The main elements of our audit work in 2020/21 have been:

- a review of the Edinburgh College's main financial systems
- an audit of Edinburgh College's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the audit dimensions: financial management, financial sustainability, governance and transparency and value for money.

4. Like all public bodies, Edinburgh College had to respond to the coronavirus pandemic (Covid-19) during 2020/21. Like other colleges, it received additional Covid-19 support funding from the Scottish Funding Council (SFC) for managing its financial sustainability, protecting jobs and supporting students during the pandemic. We included risks related to the pandemic in our Annual Audit Plan and adapted our planned audit work to review spending on Covid-19 grants.

Added value through the audit

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

- identifying and providing insight on significant risks, making clear and relevant recommendations, and reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports (Appendix 3) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

6. Edinburgh College is responsible for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the SFC accounts direction. The college is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

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

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

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

9. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

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

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

Auditor Independence

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

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £30,840 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

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

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The financial statements of Edinburgh College give a true and fair view of the state of the college's affairs as at 31 July 2021 and its deficit for the year.

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

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

Our audit opinions on the annual report and accounts are unmodified

16. The annual report and accounts for the year ended 31 July 2021 were approved by the Board of Management on 14 December 2021. As reported in the independent auditor's report:

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

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

17. The unaudited annual report and accounts were received on 24 September 2021, in line with the agreed audit timetable. The working papers which accompanied the accounts were of a good standard.

18. Due to the continued impact of Covid-19, Edinburgh College and Audit Scotland staff operated remotely during the audit. Regular communication and

good support from the College's finance team helped the final accounts audit process run smoothly and ensured completion in accordance with the planned timetable.

Overall materiality is £770,000

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

20. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate as shown in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£770,000
Performance materiality	£462,000
Reporting threshold	£40,000

Source: Audit Scotland

The main risks of material misstatement and our audit work to address them

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

Significant findings to report on the annual report and accounts

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant findings are summarised in Exhibit 2. Where a finding has resulted in a recommendation to management, a cross-reference to the action plan in Appendix 1 is included.

Exhibit 2
Significant findings from the audit of annual report and accounts

Issue	Resolution
1. Material valuation uncertainty for land and buildings due to impact of Covid-19 The College's unaudited accounts included a 'material valuation uncertainty' clause from the valuer's report for land and buildings in 2019/20. This related to the impact of Covid-19 on the property market at that time, highlighting that a higher degree of caution should be attached to the valuation than would normally be the case. The valuer confirmed that the values of the College's land and buildings as at 31 July 2020 remained correct and fair despite the material uncertainty applied at that time, but this was not reflected in the College's disclosure in the accounts.	Management updated the disclosure within its tangible fixed assets Note 12 to reflect the valuer's update. We are content with the updated disclosure.
2. Value of land and buildings as at 31 July 2021 The College's accounting policy is to fully revalue its land and buildings every five years, with an interim indexation in year three. As a result, the value of land and buildings shown in the 2020/21 unaudited accounts was the same as last year. The Statement of recommended practice - accounting for further and higher education (SORP) requires that asset revaluations must be sufficiently regular so that the carrying value of an asset at the reporting date is not materially different from its fair value. We therefore recommended to the College to confirm with the valuer that land and buildings were not materially misstated. The valuer advised that buildings should be indexed by five per cent this year due to property market changes. This means that buildings assets disclosed in the College's accounts were understated by £6.95 million as at 31 July 2020. The valuer also proposed zero per cent indexation for land, confirming that the value of land disclosed in the College's accounts was appropriate.	The College obtained an updated valuation from the valuer and adjusted the financial statements. As a result, the total comprehensive income for the year, net assets and total reserves all increased by £6.95 million. The related disclosures in the performance report, tangible fixed assets Note 12 and revaluation reserve Note 20 were also updated. We reviewed the amendments and are content with the adjustments and updated disclosures. Due to the ongoing impact of Covid-19 and to comply with the SORP requirements, the College should consider confirming with the valuer annually whether land and buildings values remain appropriate. This would ensure that assets are not materially misstated. **Recommendation 1** (refer Appendix 1, action plan)

Issue	Resolution
3. Impairment review International Accounting Standard 36 (IAS 36) - Impairment of Assets requires an assessment at the end of each reporting period as to whether the value of an asset may be impaired. If so, an estimation of the carrying value should be made, and an impairment charge applied. We have been advised that the College performs an annual impairment review but does not retain evidence of this unless an impairment is identified.	The College should implement a process to formally document its annual impairment review. This evidence would help support the judgement applied in this decision. **Recommendation 2** (refer Appendix 1, action plan)

Source: Audit Scotland

One material misstatement of £6.95 million was adjusted in the accounts

23. We identified one misstatement above our reporting threshold during the audit. As described at item 2 in Exhibit 2, land and buildings values were understated by £6.95 million which is above our materiality of £0.77 million. We concluded that the identified misstatement arose from an isolated issue identified in its entirety and does not indicate a systematic error.

24. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted the identified misstatement and there are no unadjusted errors to report.

Other findings from the audit of the financial statements

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

Going concern

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

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

27. The Financial Reporting Council’s Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom indicates that a going concern basis of accounting is appropriate in a public sector organisation unless there is a known intention to abolish, transfer or privatise activities. Even then, if the transfer of operations is within the public sector, a going concern basis of

accounting may still be appropriate. The Financial Reporting Manual (FReM) also interprets going concern for the public sector context in a similar way.

28. Edinburgh College prepared its 2020/21 accounts on the going concern basis and this is supported by the College's assessment of going concern. There has been no communication from the SFC that the College's functions would cease or that funding streams would be withdrawn. The College receives over 80 per cent of its funding from the SFC and this was confirmed for the 2021/22 financial year.

29. We are content with the College's assessment and the use of the going concern basis of accounting. This is a separate consideration from the financial sustainability issues faced by the College and described in Part 3 of this report.

Provision for accommodation occupancy rates

30. Edinburgh College has a contract for the placement of students in residential accommodation which includes clauses in relation to a guarantee of occupancy. The unaudited accounts included a provision of £1.2 million for the full estimated costs to 2025 when the contract can be terminated.

31. Management assessed future occupancy rates for appropriateness following higher-than-expected occupancy in 2021/22. It also considered the impact of the current student accommodation property market and the related inflation rates on the estimated provision and concluded that it remained appropriate. We are content with this assessment.

Significant judgements and estimates

32. We recommended improvements to the College's significant judgements and estimates disclosure to bring it in line with good practice. Finance staff implemented some of these recommendations but there is scope for further improvement by adding other aspects to the disclosure. For example, a sensitivity analysis such as for the accommodation provision would demonstrate what effects a certain range of variables might have on significant estimates under a given set of assumptions.

Recommendation 3

The College should consider further improving its note on significant judgements and estimates within its annual report and accounts.

Good progress was made on prior year recommendations

33. Edinburgh College has made good progress in implementing our prior year audit recommendations as shown in Appendix 1.

2. Financial management

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

Main judgements

Edinburgh College reported an operating deficit of £6.6 million in 2020/21, an increase of £2.0 million from last year.

The College's 'adjusted operating position' in 2020/21 was a surplus of £0.9 million, an increase of £0.4 million on last year. This surplus was better than the projected break-even adjusted operating position due to a range of factors such as the additional funding from the Scottish Funding Council and additional income from the job retention scheme.

The College has effective financial management arrangements. Covid-19 did not have a significant impact on its systems of internal control which are operating as expected. The College's arrangements and controls for recording and processing £1.9 million of Covid-19 support funding were appropriate.

Edinburgh College reported an operating deficit of £6.6 million and an 'adjusted operating surplus" of £0.9 million

34. As shown in Exhibit 3, Edinburgh College reported an operating deficit before other gains and losses of £6.6 million in the Statement of Comprehensive Income for the year ended 31 July 2021. The deficit increased by £2.0 million (43 per cent) on last year.

Exhibit 3
Financial performance in 2020/21

Financial performance	2020/21 (£m)	2019/20 (£m)	Movement (£m)
Income	70.3	67.4	2.9
Expenditure	(76.9)	(72.0)	(4.9)
Deficit for the year	**(6.6)**	**(4.6)**	**(2.0)**

Source: Edinburgh College annual report and financial statements 2020/21

35. The £2.0 million increase in the operating deficit is mainly attributable to:

- pension cost increases of £2.9 million,
- voluntary severance costs of £0.7 million,
- £0.6 million increase in the annual leave accrual for staff,
- £1 million decrease in international and commercial income
- other cost increases of £1.2 million.

36. This was offset by increased recurrent and non-recurrent funding of £4.0 million and savings associated with the voluntary severance scheme (£0.3 million).

37. In accordance with the SFC guidance, the College's 'adjusted operating position' in 2020/21 was a surplus of £0.9 million. This is an increase of £0.4 million from 2019/20 as shown in Exhibit 4. The adjusted position removes non-cash accounting adjustments included in the Statement of Comprehensive Income such as pensions, depreciation and provisions.

Exhibit 4
Adjusted operating position in 2020/21

Adjusted operating position	2020/21 (£m)	2019/20 (£m)	Movement (£m)
Surplus / (Deficit) before other gains and losses	(6.6)	(4.6)	(2.0)
Depreciation (net of deferred capital grant release)	2.7	2.5	0.2
Non-cash pension adjustments	5.7	2.8	2.9
Early retirement provision charged to SoCI	(0.2)	(0.1)	(0.1)
Non-cash provision adjustment	-	0.8	(0.8)
Revenue funding allocated to loan repayments and other capital items	(0.7)	(0.7)	-
Cash paid out on the provisions	-	(0.2)	0.2
Adjusted Operating Surplus	**0.9**	**0.5**	**0.4**

Source: Edinburgh College annual report and financial statements 2020/21

38. The adjusted operating surplus compares favourably with the original budget for 2020/21, which projected a break-even adjusted operating position. This is a key measure of the College's financial performance for the year.

39. The College had total reserves of £46.2 million as at 31 July 2021 due to a revaluation reserve of £48.1 million and a negative balance in the income and expenditure reserve of £1.9 million. Overall, the balance on reserves has increased by £13.7 million since last year, primarily due to an actuarial pension gain of £20.3 million. This is offset by an operating deficit for the year of £6.6 million.

Budget monitoring was effective and took account of Covid-19 impact

40. We reviewed Edinburgh College's budgetary processes and budget monitoring arrangements by reviewing budget monitoring reports and committee papers, and attending committee meetings. We confirmed that senior management and members receive regular, timely and up to date financial information on the College's revenue financial position. We concluded that the College has appropriate budget setting and monitoring arrangements.

41. Edinburgh College's budget increased this year with additional 'financial sustainability' funding from the SFC for Covid-19 totalling £1.3 million. The main areas of resulting additional expenditure at Edinburgh College included:

- voluntary severance scheme costs (£0.7 million)
- covering the lost student accommodation income (£0.4 million)
- the purchase of student IT equipment to provide assistance to students (£0.2 million)
- subsidising outsourced catering costs when campuses were closed (£0.2 million).

Covid-19 did not have a significant impact on systems of internal control which are operating as expected

42. Our management report, presented to the Audit and Risk Assurance Committee on 26 May 2021, concluded our findings from the review of systems of internal controls. We concluded that the controls were operating as expected. We did not identify any significant internal control weaknesses which could affect the College's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

The College received £1.9 million of Covid-19 support funding during 2020/21

43. In 2020/21 the College received £1.9 million of additional Covid-19 funding from the SFC. Of this, £1.6 million was to help address the impact of Covid-19 on the College such as reduced income, additional costs and a general weakening of the financial position.

44. The remaining £0.3 million was additional Covid-19 support funding for students in immediate need of additional financial support. As the College acted as an SFC agent, this funding is not accounted for in the Statement of Comprehensive Income. Further details are disclosed Notes 25 and 26 to the accounts.

45. Overall, the College implemented adequate controls for recording and processing these grant transactions. The College also had appropriate measures in place to reduce the risk of fraudulent or erroneous payments. However, we identified one area for improvement. We have been advised that College staff performed checks on applications for Covid-19 student support funding but these were not evidenced.

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

46. Edinburgh College is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

47. We concluded that the College has appropriate arrangements for the prevention and detection of fraud, error and irregularities. We also reviewed the arrangements to maintain standards of conduct including the Board and Staff Code of Conduct and the register of interests. We concluded that there are established procedures for preventing and detecting any breaches of these standards, including any instances of corruption.

Arrangements for preventing fraud and corruption in the procurement function are appropriate

48. We reviewed the arrangements in place at the College to prevent fraud and corruption in the procurement function. Audit Scotland and Police Scotland developed a Red Flags – Procurement guidance in October 2019. This sets out the 'red flags' or risks to consider. It also outlines a number of expected controls across the different stages of the tendering and procurement process.

49. The College's 2019/20 Annual Procurement Report noted that the College spent over £12 million on the purchase of goods and services from almost 1,100 active suppliers. Procurement is a well-established process within the College, with a clear, robust and comprehensive process in place before, during and after bids are invited.

50. We concluded that the College has a number of controls and processes in place, in line with those highlighted in the Red Flags guidance. These include:

- an appropriate segregation of duties between business areas and the procurement function at all stages of the purchasing cycle, with appropriate and defined expenditure authorisation levels
- the requirement for declarations of interest by those involved in the tendering process, with any individuals with conflicts removed from the process
- regular analysis of procurement expenditure throughout the year, with a regularly reviewed, centralised contracts register
- the use of Public Contracts Scotland for contracts and award notices over £50,000
- appropriate training of staff on procurement processes and fraud
- internal audit activity on procurement and contract management in recent years.

51. The College's procurement team is comprised of two staff members who are also employed by Advanced Procurement for Universities and Colleges (APUC). APUC is the procurement centre of expertise for Scotland's colleges and universities.

52. The College and Edinburgh Napier University are members of the Edinburgh Regional Procurement Team. This shared procurement service was established by APUC and the member institutions to identify collaborative and applicable approaches to procurement services.

53. The College also participates in the Scottish Government's annual Procurement and Commercial Improvement Programme (PCIP) assessment. The 2019/20 Annual Procurement Report highlights that the College achieved an 85 per cent PCIP Lite score in December 2019. This is within the 'gold' performance banding and represents an improvement on the previous 'silver' score of 73 per cent.

54. Overall, we concluded that appropriate arrangements are in place to address the risk of fraud and corruption within the procurement function.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

The College's medium-term financial plan continues to forecast a challenging financial position with break-even over the next three years requiring cumulative savings of between £1 million and £2.8 million.

The College recognises the need to keep its financial position under review. It is planning to refresh the financial plan once the Board agrees its new strategic priorities.

Break-even over the next three years requires cumulative savings of between £1 million and £2.8 million

55. The College maintains a rolling medium-term financial plan, covering a period of five years to 2025/26. It plans to report it to the Policy and Resources Committee once the outcome of the comprehensive spending review is known. The plan underpins the annual financial forecast returns (FFRs) to the SFC.

56. In October 2021, the College provided its latest FFR to the SFC. The SFC specifically requested colleges to consider two potential funding scenarios – a less optimistic and a more optimistic scenario. The first one assumes an increase in funding of 2.5 per cent and 1 per cent for 2022/23 and 2023/24 financial years respectively. The second scenario assumes a four per cent increase in funding for both financial years.

57. Under the first, less optimistic scenario, the College estimates that break-even over the next three years would require cumulative savings of £2.8 million. Under the second, more optimistic scenario, the College anticipates having to achieve savings of £1.0 million in 2022/23.

The College recognises the need to closely monitor its financial position

58. The significant financial impact of the pandemic on Edinburgh College is likely to extend across several years. The College recognises that its medium-term financial plan will need to evolve to consider a range of uncertainties such as:

- potential further Covid-19 restrictions impacting on student numbers as well as international and commercial income

- any additional costs arising from the ongoing national pay bargaining negotiations
- the impact on staff and student numbers as a result of EU withdrawal.

59. The College achieved operational savings of around £25.3million since 2013/14. This includes savings from voluntary severance in 2020/21 and in previous years. Thirty-nine staff left under the voluntary severance scheme in 2020/21 and this is expected to generate further recurring savings of £1.2 million.

60. Going forward, the College believes there is no longer scope for achieving further non-pay savings without a detrimental effect on its core operations. This means that it may need to make difficult decisions about its spending and its business model in the future.

61. In previous years we have recommended that the College develops a long-term financial strategy. This would enhance the information available to the Board and allow it to understand fully the financial position of the College in the longer-term. It would also allow the Board to identify any difficult decisions that may be required to a break-even position in future years.

62. The College does not feel there is value in extending its planning outlook beyond the five-year timeframe. However, it recognises the need to continue monitoring its financial position closely and keep its projected savings under review to ensure they are realistic and achievable. It is planning to update the financial plan once its strategic priorities for the next five years to 2025/26 are refreshed. We raised a recommendation on financial sustainability in 2019/20 and follow this up in Appendix 1.

The College continues to develop its new strategic priorities

63. Last year we reported that the College was refreshing its corporate strategy, recognising the need to reshape its business model to meet future demands for service provision, increase its capability for remote working and contribute to the skills-led economic recovery.

64. During 2020/21, the College continued to develop its new strategic plan for the five years from 2022 to 2026, with the aim of reshaping its current strategic objectives in support of its future ambitions and strategic direction. The Board expects to approve the new strategic plan in March 2022. The College also prepared its new workforce plan to help align the changing operational needs of the College with its people strategy.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

The governance arrangements are appropriate and the College adjusted well to the impact of Covid-19.

The performance report was of a good standard following the incorporation of audit recommendations.

The College made further improvements in cyber security.

The College's governance arrangements and response to Covid-19 are appropriate

65. Last year we concluded that Edinburgh College had appropriate arrangements in place to support good governance, accountability and scrutiny. We also reported that the College's arrangements in response to Covid-19 were effective and supported good governance and accountability. These included:

- all Board of management (the Board) and committee meetings being held online since May 2020
- weekly online meetings between the Board interim chair, interim vice chair and the College's principal
- the Executive providing more regular communications to the Board
- the development of a specific Covid-19 risk register and a plan to identify and manage the impacts of the pandemic
- a staff survey to identify key issues facing College staff such as health and wellbeing.

66. Board and committee meetings are still being held online and the Covid risk register remains in place. But some of the arrangements have evolved as the pandemic has progressed and restrictions have eased. For example, a team which managed the initial impacts of the pandemic was reinstated to plan for the 2021/22 academic year. This is due to the ongoing impact of the pandemic and students starting to return to campus on a phased approach. As per the

Scottish Government guidance, there are currently no plans to bring all staff and students back onto campuses.

67. Internal audit carried out an audit of business continuity management in June 2021. This identified some areas of good practice, such as the timely development of the Critical Incident Management Team. But it also identified some areas for improvement, most notably the lack of lessons learned exercise.

68. In 2019/20 we reported that the process to appoint a new Chair had been postponed until 2021 due to the impact of Covid-19. The recruitment process for the new Chair is still ongoing. Additionally, the current deputy Chair of the Board (who is also the Chair of the Audit and Risk Assurance Committee) will stand down in March 2022. The College plans to appoint the new Deputy Chair and review the committee membership before the end of this year.

69. We concluded that the College's governance arrangements remain appropriate.

The College welcomed the SFC review of coherent provision and sustainability in tertiary education

70. The SFC's published the report on its review of tertiary (further and higher) education in June 2021. This built on findings from the earlier Cumberford-Little Report: One Tertiary System: Agile, Collaborative, Inclusive (February 2020).

71. The SFC report raised a number of recommendations, aimed at several organisations including the Scottish Government. The most pertinent to the College included the following:

- the Scottish Government to provide greater flexibility to colleges around the March financial year-end
- Scottish Ministers to consider whether they wish to explore the Office of National Statistics (ONS) classification of incorporated colleges
- The Scottish Government to ensure that extraordinary measures and funding introduced in light of Covid-19 are continued into 2022/23
- the SFC to work with the sector to intensify collaborative and integrated working, consolidation, and shared support
- the SFC to develop a new overarching National Impact Framework for colleges and universities.

72. The report reflects that taking forward the recommendations will require collaboration between the SFC, Scottish Government, colleges, universities, Skills Development Scotland and other stakeholders.

73. In its response to the report, Edinburgh College took the opportunity to set out matters of priority including:

- recommending that the Scottish Government sets out its overall strategic, longer-term intent for colleges and universities

- supporting the view that extraordinary measures introduced by the Scottish Government in light of Covid-19 should continue
- recommending that the SFC should work with the Scottish Government to create a new Knowledge Exchange and Innovation Fund for universities and colleges
- supporting the SFC recommendations to develop an International Education Strategy and a marketing strategy for Scottish tertiary education.

74. The Scottish Government formally responded to the SFC report in October 2021 stating that it broadly accepted and agreed with the report's recommendations. The response also stated that the Scottish Government will work closely with the SFC on more detailed implementation plans.

The performance report was of a good standard following last year's audit recommendations

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

76. Last year we recommended to the College to make the performance and accountability reports more concise, improve their readability and bring them in line with good practice. We shared good practice notes with the College and the College committed to make further improvements in future years. We are pleased to note that this year' performance report was more concise but still provided the required disclosures.

77. We identified areas for further improvement during the audit, including the need to add more detail on risks and how they impacted on the College's performance. We also suggested some changes to the performance summary to ensure that it was fair and balanced. We were content with the amended disclosures and concluded that the performance and accountability reports met the requirements and were fair and balanced.

The College made further improvements in cyber security

78. Last year we reported that internal audit identified a number of areas for improvement during it review of the College's cyber security arrangements. By August 2021, internal audit reported that seven of the report's original ten recommendations were fully implemented. The three remaining actions are graded as medium risk and have been partially implemented. They include formally documenting the process for changing staff user access and permissions, risk assessing the systems and review of software updates.

5. Value for money

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

Main judgements

Edinburgh College has developed and implemented an appropriate performance management framework.

During 2020/21 the College maintained service performance in most areas despite Covid-19 but there was a decline in full-time attainment.

Edinburgh College has developed and implemented an appropriate performance management framework

79. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board of Management. The Financial Memorandum with the SFC requires the College:

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

80. Last year we reported that the College developed the annual performance dashboard in addition to the quarterly dashboard for reporting on key performance indicators (KPIs). It also planned to review all quarterly KPIs at the committee level. As part of this newly developed performance management framework, the College now reports KPIs quarterly to the Board through the Principal and Chief Executive report.

81. The quarterly KPI reports provide the Board with an appropriate snapshot of the College’s performance throughout the year and cover the following areas:

- Gross carbon footprint
- Commercial income
- Total credits
- Staff costs as a percentage of income
- Financial adjusted operating position
- Enrolment, recruitment and retention.

82. We concluded that the College's new performance management framework is appropriate and provides the Board with suitable information on the College's performance.

Edinburgh College maintained service performance in most areas despite Covid-19 but full-time attainment declined

83. The SFC recurring grant to Edinburgh College is based on the amount of learning that the College delivers. This is measured in units called 'credits' which equate to 40 hours of learning. The College exceeded the SFC target of 187,869 credits, reporting delivery of 194,000 credits. The College's internal auditor carried out an annual check to confirm the accuracy of the reported activity/credits.

84. The quarter four KPI report, provided to the Board in August 2021, highlighted that most performance levels were in line or above the agreed targets. Commercial income was however six per cent below its reforecast target. The College does not set targets for gross carbon footprint but compares scores against the prior year equivalent. The quarter four carbon footprint was higher in 2020/21 than 2019/20. This is likely due to the closure of campuses during the lockdown in 2020.

85. Not all performance indicators can be reported in this way during the year. For example, student attainment figures are only available after the end of the academic year. These figures are available for the performance report in the annual report and financial statements and are summarised in Exhibit 5.

Exhibit 5
Key performance indicators – trend analysis

KPI	2020/21	2019/20	2018/19	2017/18	2016/17
Full-time FE aged 16-19	50.6%	58.5%	46.5%	54.9%	57.5%
Full-time FE	57.5%	58.5%	56.0%	60.7%	62.9%
Full-time HE	72.0%	74.4%	69.8%	71.3%	73.1%
Part-time HE	78.5%	60.0%	75.5%	84.3%	82.1%
Part-time FE	68.7%	54.6%	66.2%	70.8%	71.9%

Source: Edinburgh College annual report and financial statements 2016/17 to 2020/21

86. Exhibit 5 shows that, while full-time student attainment declined across all categories in 2020/21, all part-time attainment categories improved. This is likely to have been influenced by the restrictions imposed by the lockdown.

87. As outlined earlier in the report, the College is currently developing a new strategic plan. Board members held a strategy session in June 2021, considering the College's future strategic direction. The new strategic plan is expected to be presented for approval at the Board meeting in March 2022.

Scotland's Colleges 2020 blog concluded that the sector has responded well to the pandemic, but its effects will be felt for years to come

88. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21 we published a number of reports which may be of interest to the College. These are outlined in Appendix 4. As reported in previous years, the College has effective arrangements in place for considering and reviewing national reports including any locally agreed actions.

89. In addition to these reports, the Auditor General also released an online blog Scotland's colleges 2020 in May 2021. This was produced as part of an ongoing series which had previously involved full reports. The blog highlighted that overall, the sector had responded well to the challenges of the pandemic. It stated that governance and financial management arrangements continued to operate effectively.

90. The blog also highlighted that the effects of the pandemic are likely to be felt in colleges for years to come. This includes longer-term implications for colleges' financial sustainability, the experience of students and staff, the college estate and the role of the sector in supporting Scotland's recovery and renewal.

Appendix 1. Action plan 2020/21

2020/21 recommendations for improvement

Issue/risk	Recommendation	Agreed management action/timing
1. Impact of Covid-19 on land and buildings valuation The College's accounting policy is to fully revalue its land and buildings every five years, with an interim indexation in year three. As a result, the value of land and buildings shown in the 2020/21 unaudited accounts was the same as last year. The Statement of recommended practice - accounting for further and higher education (SORP) requires that asset revaluations must be sufficiently regular so that the carrying value of an asset at the reporting date is not materially different from its fair value. The valuer advised that buildings assets should be indexed by five per cent this year due to property market changes, confirming that their values were materially understated by £6.95 million. **Risk** – There is a risk that the carrying value of the land and buildings assets is materially different to their fair value.	Due to the ongoing impact of Covid-19 and to comply with the SORP requirements, the College should consider confirming with the valuer annually whether land and buildings values remain appropriate. This would ensure that the asset values are not materially misstated. Exhibit 2, Issue 2	Agreed. The College will request an indexed valuation for the year ended 31/7/2022 and also review the Land & Building revaluation policy at that date. Director of Finance 31 August 2022

Issue/risk	Recommendation	Agreed management action/timing
2. Impairment review International Accounting Standard 36 (IAS 36) - Impairment of Assets requires an assessment at the end of each reporting period as to whether the value of an asset may be impaired. We have been advised that the College performs an annual impairment review but does not retain evidence of this unless an impairment is identified. **Risk –** There is a risk that insufficient evidence is held to support judgements made in decisions not to impair assets.	The College should implement a process to formally document its annual impairment review. This evidence would help support the judgement applied in this decision. Exhibit 2, Issue 3	Agreed. The College will review assets for impairment before each accounting year-end and have this documented and approved. Fixed asset procedures will be updated to reflect this change. Director of Finance 31 August 2022
3. Significant estimates and judgements We recommended improvements to bring the College's significant judgements and estimates disclosure in line with good practice. The College implemented some recommendations but there is scope for further improvement by adding other aspects to the disclosure such as a sensitivity analysis. **Risk –** There is a risk that the significant judgements and estimates are not useful for the reader of the accounts.	The College should consider further improving its note on significant judgements and estimates within its annual report and accounts. Paragraph 32	Agreed. Director of Finance 31 August 2022

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
4. Componentisation of buildings As part of the valuation of the College's land and buildings, external valuers provided a value for each of the four campuses. Each campus consists of the building and land assets, and infrastructure assets such as tarmac parking areas, walking / cycle paths and similar. In the unaudited accounts infrastructure assets have not been disclosed separately from buildings even though they would likely have different useful economic lives (UEL) to the building assets. **Risk** – There is a risk that the College's asset components have different UELs which would materially change the depreciation charge.	The campus assets should be split into components that recognise the different UELs.	**Complete** The asset valuer performed the recommended componentisation exercise on the building asset valuations, clearly showing separate expected lives for each asset. The College updated and reconciled its fixed asset registers with this componentisation detail and made the corresponding adjustments to the financial ledger. We reviewed the componentisation and reconciliation, and the year-end asset balances and movements, with no issues identified.
5. Financial sustainability In line with the rest of the college sector, Edinburgh College is continuing to face significant financial challenges. To achieve a break-even 'adjusted operating position' over the next five years, the College needs to achieve cumulative savings of up to £4.8 million. It will need to make some tough decisions to achieve these savings. **Risk** – There continues to be a risk that the College will not be able to achieve the	The College should keep its projected savings under review to ensure they are realistic and achievable.	**Ongoing** The most recent forecast indicates that the worst-case scenario will require the College to make savings of £2.8 million to remain within budget by 2023/24. Even the most optimistic scenario requires to College to make savings of around £1 million over that period.

Issue/risk	Recommendation	Agreed management action/timing
forecast savings, and this could lead to significant cash/ liquidity issues.		
6. Performance and accountability reports Despite the permitted reductions in reporting this year, the College prepared the reports in full including the performance analysis section of the performance report. There is scope for the College to enhance its reporting and bring the performance and accountability reports in line with good practice. This could include better links between the College's performance indicators, risks and uncertainties and use of infographics. **Risk** – There is a risk that the performance and accountability reports are not in line with good practice and that clearer information could be provided to the users of accounts.	The College should consider making the performance and accountability reports more concise, improve their readability and bring them in line with good practice.	**Complete** The College made a number of improvements to its performance and accountability reporting in 2020/21 which brought it broadly in line with good practice. The College achieved a better balance between being both comprehensive and concise this year. In particular, the performance report was more streamlined in certain sections and included the use of infographics. It also included better links between key risks, performance and the delivery of objectives.
7. Long-term financial planning The five-year financial forecast from 2019/20 to 2023/24 provides the Board of Management with a good basis for monitoring financial performance over the medium-term but there is scope for developing this into an overarching longer-term financial strategy. This would enhance the information available to the Board and allow it to understand fully the	Edinburgh College should develop an overarching longer-term financial strategy for the next five to ten years to help identify problems with affordability at an early stage. The strategy should include scenario planning, whereby assumptions about different levels of future income, expenditure and activity are made.	**Complete** Edinburgh College has a medium-term financial plan covering a period of five years, which it plans to keep under regular review to ensure it properly considers a range of uncertainties. The College is currently finalising its new strategic plan with an update to its medium-term financial plan to follow.

Issue/risk	Recommendation	Agreed management action/timing
financial position of the College in the longer-term including any difficult decisions that may be required to a breakeven position in future years. **Risk –** There is a risk that the Board of Management does not have the information required to make to make informed financial decisions that will be required in future years.		

Appendix 2. Significant audit risks identified during planning

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the Code of Audit Practice 2016.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement caused by the management override of controls International Auditing Standards (ISA 240) require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.	Detailed testing of journal entries Review of accounting estimates and judgements Focused testing of accruals and prepayments Focused testing of accounting adjustments at the year end Evaluation of significant transactions that are outside the normal course of business Cut-off testing to confirm transactions have been accounted for in the correct financial year.	**Results:** We carried out sample tests on journals, accruals, prepayments and cut-off items and did not identify any issues that would indicate management override of controls affecting the financial statements. We also reviewed the rationale underpinning accounting estimates and found no evidence of management bias. **Conclusion:** Satisfactory.
2. Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of the material account areas of: • non-current assets • pensions	Review of accounting estimates and policies to ensure they are appropriate and properly applied Reliance on professional non-current asset valuers Confirm pension valuations in actuarial report are correctly reflected within the 2020/21 financial statements	**Results:** We reviewed management's accounting estimates and policies and confirmed that these were reasonable and properly applied. We reviewed the work of the asset valuers and actuaries and were able to place reliance on their work.

Audit risk	Assurance procedure	Results and conclusions
• provisions. This subjectivity represents an increased risk of material misstatement in the financial statements.	Review of the work of the actuary, including consideration of the appropriateness of actuarial assumptions used Testing of pension disclosures, including data that Edinburgh College provides to actuaries Focused substantive testing of provisions and related disclosures including the provision of accommodation occupancy costs.	We reviewed the actuarial data and assumptions used in calculating the pension report figures and concluded that they were reasonable. We assessed the provisions disclosure in the accounts and concluded that there were sound arrangements in place for identifying and measuring their estimated values. **Conclusion:** Satisfactory.
3. Risk of misstatement due to Covid-19 disclosure requirements In March 2021, the Scottish Funding Council announced additional, non-recurring Covid-19 support funding of £24 million for the college sector in the 2020/21 financial year. Edinburgh College received approximately £2.3 million of this funding for financial stability, protecting jobs and helping students. As a result, the College has been providing grant funding to its students for digital support and for supporting the losses incurred by students as a result of Covid-19. There is a risk of disclosure misstatement for this new area of expenditure. Agency expenditure will need to be separated from the Covid-19 funding the College has received to support its own budget.	Reviewed further technical guidance when available and discussed with the College's finance team Reviewed Covid-19 disclosures in the 2020/21 annual accounts for accuracy and completeness.	**Results:** The additional principal Covid-19 support funding received from the SFC was recorded against the Statement of Comprehensive Income (SoCI) and was confirmed to be clearly separate to the additional agency Covid-19 student support expenditure administered by the College on behalf of the SFC and the Student Awards Agency Scotland (SAAS). We concluded that the Covid-19 disclosures in the financial statements were accurate and complete. **Conclusion:** Satisfactory.

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
4. Financial sustainability The College's financial forecasts for 2021/22 to 2024/25 show that cumulative savings of £3.3 million will be required to achieve its projected break-even 'adjusted operating position' in each of the four years. The College expects to save £1.5 million from the recently completed first phase of the voluntary severance scheme and the removal of vacant posts but it will need to identify further savings and make difficult decisions on its future spending. There are a number of medium-term financial challenges such as a projected shortfall in commercial income, cost of living and increasing employer's pension contributions. There is also a range of uncertainties with the impact of Covid-19 and with EU withdrawal. The College is monitoring these risks in its risk register, with similar financial pressures seen across the college sector as a whole. There is a risk that the College is not able to achieve the forecast savings and its financial position worsens as a result. This could impact its cash flows and operations.	Committee oversight of financial reports to keep projected savings under review. Risk register regularly monitored by appropriate committees and the board. Regular engagement with Scottish Funding Council. Development of a long-term financial strategy to help identify challenges with funding and savings at an early stage. Board's consideration of implications of Covid-19 and of EU withdrawal.	**Results**: In line with the wider sector, Edinburgh College continues to operate within tight financial margins with break-even over the next three years requiring cumulative savings of between £1 million and £2.8 million. The College recognises the need to keep its financial position under review due to a range of uncertainties such as the continuing impact of Covid-19, EU withdrawal and national pay bargaining negotiations. **Conclusion:** Satisfactory.

Audit risk	Assurance procedure	Results and conclusions
5. Covid-19 related support funding The College has received additional, non-recurring support funding from the Scottish Funding Council (SFC) to help address the disruption caused by Covid-19. Decision-making in a fast moving environment presents challenges for the College and other public bodies. These include maintaining good governance and controls while making decisions quickly, adapting performance measures and ensuring that anti-fraud arrangements remain robust at a time when the risk of fraud is increased. There is a risk that the College's governance and control frameworks in relation to Covid-19 spending are not effective.	Effective governance, anti-fraud arrangements at the College. Regular discussions between the College and the SFC on compliance with the grant conditions. Separate supporting working papers maintained by Finance team for Covid-19 grant funding. The written report from the College to the SFC on the distribution of the support funding at the end of the current academic year. Internal audit's review of financial controls and change management processes in the current Covid-19 environment.	**Results:** We assessed the governance and anti-fraud arrangements in place at the College for the additional Covid-19 related support funding. These arrangements were confirmed to be effective but we note an issue with documentation of checks on student support applications. We reviewed the supporting evidence for the additional SFC Covid-19 funding maintained by the finance team and confirmed it was appropriate, accurate and separate from other grant funding papers. We inspected the College's return submitted to the SFC at the end of the financial year. This detailed how the College allocated the additional Covid-19 funding in 2020/21 and outlined how this spend was aligned with grant funding conditions. No issues were identified. We considered internal audit's review over the design and operational effectiveness of Covid-19 financial controls at the College. A 'substantial' assurance opinion was issued. **Conclusion:** Satisfactory
6. Cyber security – governance and risk management Cyber-attacks are an increasing threat to organisations, as evidenced by recent incidents affecting public bodies. This risk is heightened due to the impact	The College continues to progress towards implementing internal audit recommendations on cyber security. Regular review and assessment of cyber security on the Operational Risk	**Results:** Edinburgh College has made good progress in the implementation of internal audit recommendations on cyber security. Internal audit noted in their follow-up review that the College had fully implemented seven

Audit risk	Assurance procedure	Results and conclusions
of Covid-19, such as home-working and changes to internal controls. Cyber security continues to be one of the top risks identified by the College. In 2019/20, internal audit provided 'limited assurance' over the design and operational effectiveness of the College's arrangements in relation to cyber security, with a number of areas for improvement identified. There is a risk that a cyber-attack could disrupt College systems, including key financial systems.	Registers and the Top Level Risk Register. Internal audit follow up on the College's progress with implementing recommendations.	recommendations, while three were partially implemented. The College developed a Cyber Security Risk Control Matrix to enable monitoring of new and emerging risks. There are also 12 new cyber security policies in place, and a cyber incidents record is kept up to date. Systems penetration testing was performed during the year, and the College has also been investing in its IT infrastructure, including new firewalls, software patch updates and multi-user authentication for all IT system users. Audit Risk and Assurance Committee regularly reviews the College's cyber security through consideration and scrutiny of the Top-Level Risk Register. **Conclusion:** Satisfactory

Appendix 3. Summary of 2020/21 national performance reports

April

Affordable housing

June

Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway

Local government in Scotland Overview 2020

July

The National Fraud Initiative in Scotland 2018/19

January

Digital progress in local government

Local government in Scotland: Financial overview 2019/20

February

NHS in Scotland 2020

March

Improving outcomes for young people through school education

Edinburgh College
2020/21 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

For the latest news, reports and updates, follow us on:

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk