Glasgow Kelvin College

2020/21 Annual Audit Report to the Board and the Auditor General for Scotland

November 2021

Table of Contents

Key messages

This report concludes our audit of the Glasgow Kelvin College for 2020/21.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	Our independent auditor's report includes: • an unqualified opinion on the financial statements; • an unqualified opinion on regularity; and • an unqualified opinion on other prescribed matters. Our audit work is substantially complete and there are currently no matters which would require modification of our audit report.
Key findings on audit risks and other matters	Our key findings are included in the financial statements audit section of this report. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and our audit opinion. We are pleased to report those risks identified did not materialise. Glasgow Kelvin College ("the College") had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.
Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We are pleased to report that there were no material adjustments to the financial statements. We identified a small number of unadjusted misstatements which we list in Appendix 2. We identified some disclosure and presentational adjustments during our audit. These have been reflected in the finalised financial statements.
Accounting systems and internal controls	We have applied our risk based methodology to your audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.

Wider scope audit

Financial Sustainability	**Auditor judgement**	
	The financial position of the College improved when compared to the previous year and estimates show projected surpluses for the next two financial years and a small deficit in 2023-24, when adjusted for non-cash items. While the medium-term financial position of the College has stabilised, there remain a number of uncertainties in relation to COVID, student numbers and other sector wide issues which continue to increase financial risk and uncertainty. The Board has short and medium-term financial plans in place and appropriate arrangements for financial monitoring and management. The College manages its capital expenditure on an annual basis based on the Glasgow Colleges Regional Board (GCRB) allocation. We would encourage the College to have a mid to long term capital plan in place to help manage its estate and support the College in its discussions with the funding providers.	
Financial Management	**Auditor judgement**	
	The College is well managed financially, but faces unprecedented challenges as a result of the COVID-19 pandemic. The College reports an operating deficit of £2.229 million for the year. Actuarial gains of £8.372 million moved the College's position to an accounting surplus of £6.143 million for the year. The adjusted underlying operating surplus for the year was £0.876 million (£0.238 million in 2019/20). The College's balance sheet records negative reserves of £6.514 million, reflecting mainly movements in pension liabilities which will be met over the longer term. The accounts also record cash balances of £3.783 million at July 2021 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.	

	Auditor judgement	
Governance & Transparency	Governance arrangements at the College were found to be satisfactory and appropriate, including an induction programme for the new Board members. The Board was subject to an externally facilitated effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review concluded that the College demonstrates a high level of compliance with the Code. Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.	

	Auditor judgement	
Value for Money	2020/21 was a challenging year, with financial and liquidity indicators improving, but performance in relation to student engagement and Credit targets declining. The College has not met its Credit target, but by only 0.5%. The College's geographical locations impact its student's population of which more than half comes from the 10% most deprived areas in Scotland. Performance in delivering Credit targets for these students is mixed. In 2020/21 the College delivered 36.6% of credits to such learners against 41.1% target and prior year 41.2% actual. We note that this outcome is significantly higher than the average for other Scottish Colleges of 17%. The Board has appropriate performance management processes in place that support monitoring and managing the performance. The College maintains good levels of student satisfaction.	

Definition

Our wider scope audit involves consideration of the College's arrangements as they relate to financial sustainability, financial management, governance and transparency and value for money. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.

There is a fundamental absence or failure of arrangements in place

There is no evidence to support improvement

Risks exist over the College's ability achieve its desired outcomes

The College's arrangements over the wider scope audit dimensions are inadequate or ineffective.

Pace and depth of improvement is slow

Risk exist over the College's ability to achieve its desired outcomes

There are no major weaknesses in the College's arrangements but there is scope for improvement.

Pace and depth of improvement is adequate

Risks exist over the College's ability to achieve its desired outcomes

Effective and appropriate arrangements are in place

Pace and depth of improvement is effective

No risks exist over the College's ability to achieve its desired outcomes

Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Glasgow Kelvin College for 2020/21.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (2016) and maintained auditor independence. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

At the College, we have designated the Audit and Risk Committee as "those charged with governance".

Scope

1. This report summarises the findings from our 2020/21 audit of Glasgow Kelvin College.

2. We outlined the scope of our audit in our Annual Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:

- an audit of the 2020/21 annual report and accounts and related matters;
- consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
- monitoring the College's participation in the National Fraud Initiative; and
- any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice (2016)

Responsibilities

3. The College is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

5. We would like to thank all management and staff for their co-

operation and assistance during our audit.

Auditor independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the 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 resources.

Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Openness and transparency

11. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Financial statements audit

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

Our independent auditor's report includes:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity;
- and an unqualified opinion on other prescribed matters.

We are also satisfied that there were no matters which we are required to report by exception.

Overall conclusion

12. The annual report and accounts were considered by the Board of Management and Audit and Risk Committee in December 2021. Our independent auditor's report is unqualified.

13. We received the unaudited annual report and accounts and supporting papers of an adequate standard. Our thanks go to staff at the College for their assistance with our work.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice. Our findings / conclusion to inform our opinion are set out in this section of our annual report.	We have issued an unqualified audit opinion on the 2020/21 financial statements.
Going concern basis of accounting	In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body. Our wider scope audit work considers the financial sustainability of the College.	We reviewed the financial forecasts for 2021/22. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date. Our audit opinion is unqualified in this respect.
Regularity	We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.	We did not identify any instances of irregular activity. In our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any

Opinion	Basis for opinion	Conclusions
		applicable enactments and guidance issued by the Scottish Ministers.
Opinions prescribed by the Auditor General for Scotland on: • Performance Report and Governance Statement • Remuneration and Staff Report	We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • the information given in the Performance Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; • the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration and Staff	We have no matters to report.

Opinion	Basis for opinion	Conclusions
	Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	

An overview of the scope of our audit

14. The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Audit and Risk Committee in June 2021. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

15. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

16. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas

17. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

18. The significant risk areas described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

Significant risk areas

1. Management override	
Significant risk description	In any organisation there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with *ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.* **Risk assessment**: **High**
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the College's controls for specific transactions. **Audit procedures** • Reviewed the College's accounting records and audit testing on transactions. • Adopted data analytics techniques in testing carried out. • Reviewed judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.
Key observations	We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition	
Significant risk description	Under *ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that College could adopt accounting policies or recognise income transactions in such a way as to lead to a material misstatement in the reported financial position. **Risk assessment: High**
How the scope of our audit responded to the significant risk	Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for revenue resource allocations from the Scottish Funding Council or GCRB due to a lack of incentive and opportunity to manipulate transactions. **Audit procedures** • Evaluated the significant revenue streams and reviewed the controls in place over accounting for revenue. • Considered the College's key areas of revenue and obtained evidence that revenue is recorded in line with appropriate accounting policies and that the policies have been applied consistently across the year.
Key observations	We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that it is fairly stated in the financial statements.

3. Expenditure recognition	
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end. **Audit procedures** • Evaluated the significant non-pay expenditure streams and reviewed the controls in place over accounting for expenditure. • Considered College's key areas of expenditure and obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Reviewed accruals around the year end to considered if there is any indication of understatement of balances held. Considered accounting estimates.
Key observations	We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

4. Pension assumptions	
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Given that small movements in the underlaying assumptions may translate into significant changes of the pension liability we deem this area to be subject to a high risk of misstatement. **Audit procedures** • Reviewed the controls in place to ensure that the data provided from the pension fund is complete and accurate. • Reviewed the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data. • Agreed the disclosures in the financial statements to information provided by the actuary. • Considered completeness and accuracy of the information provided by the College to the actuary. • Ensured that we can rely on actuary's work as an expert by obtaining sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.
Key observations	The net pension liability was £9.228 million as at 31 July 2021 (2020: £15.421 million). We gained reasonable assurance that the pension assumptions used are appropriate and that the pension liability is not misstated in the annual accounts.

5. Estates Valuation

Significant risk description	The College holds a significant estate, with net book value of land and buildings of £55.451 million as at 31 July 2021. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional valuations, with the latest independent valuation completed at 31 July 2019. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates and small changes in estimates have the potential to result in a material change in asset valuation. **Risk assessment:** Medium
How the scope of our audit responded to the significant risk	**Key judgements** There is the potential for management to use their judgement to influence the financial statements. **Audit procedures** • We ensured that assets are recorded in line with the Furter Education Statement of Recommended Practice (FE SORP), Accounts Direction and the College's accounting policies, and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of COVID-19. • Where professional advice has been sought, we considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We considered the College's impairment review and communication with the valuer. In addition, we considered the scope of the valuer's work and the information provided to the valuer for completeness.
Key observations	We gained reasonable assurance over the valuation of estates at the year end and are satisfied that the estate is fairly stated in the financial statements.

Other risk factors

Impact of COVID-19 on the annual accounts

19. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
Access to audit evidence	For the second year, our audit has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.	We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced. We stayed in close contact with the College's finance team right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed.

Estimates and judgements

20. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

21. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation rates, provisions for legal obligations, and accruals. We identified two accounting estimates listed below.

22. Our audit work consisted of reviewing these keys areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements	
Present value of retirement obligations	Balanced
Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2021. The assumptions of the actuary, Hymans Robertson, were overall within our expected range. The assumptions were predominantly in the middle of our expected range except for the discount rate which, while slightly out with of the expected range and towards its lower end, is considered to be on the prudent end of the scale.	
Estates valuation	Balanced
We ensured that assets are recorded in line with the FE SORP and the College's accounting policies and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of COVID-19. No valuation took place in 2021 with the last valuation having taken place in 2019. Revaluations take place every 5 years with the next one due to take place in 2024. However, the valuer confirmed that they would not expect any significant movements in the year ended 31 July 2021. Where professional advice has been sought, we considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). The College performed an impairment review of the assets and did not identify any indication of impairment. The results of our subsequent review of the above evidence is that the estates net book value is not materially misstated.	

Materiality

23. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

24. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the College's and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

25. We based our initial assessments of materiality levels on the information available at the time i.e. prior years audited accounts. For the College's

financial statements, the initial materiality was set at £628,000. On receipt of 2020/21 unaudited annual accounts, we reassessed materiality and updated it to £640,000. We consider that our updated assessment has remained appropriate throughout our audit.

26. ISA (UK) 320 states that in certain circumstances it is appropriate to set a materiality amount for particular classes of transactions for which lesser amounts than the overall materiality could influence the decisions of users of the accounts. As set out in our Annual Audit Plan, we consider transactions when dealing with members (i.e. contributions and expenditure incurred providing payments to pensioners) to be of key interest to the users.

Materiality

Overall materiality

£640,000

100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£480,000

75%

Work performed to capture individual errors at this level

Trivial threshold

£32,000

5%

All errors greater than this level are reported

Materiality	Our assessment is made with reference to the College's expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College. Our assessment of materiality equates to approximately 1.8% of the College's expenditure as disclosed in the 2020/21 unaudited annual accounts. The above approach and percentage used are consistent with the prior year.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

27. We are pleased to report that there were no material adjustments to the financial statements. We list unadjusted misstatements in Appendix 2.

28. We identified some disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

Internal controls

29. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the College. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We identified one non-significant controls point as detailed in Appendix 3.

Action plan and follow up of prior year recommendations

30. An action plan and our recommendations are included in Appendix 3. There were no action points outstanding to follow-up from prior years.

Area	Assessment	Comment
Control and process environment	**Satisfactory**	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	**Satisfactory**	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	**Satisfactory**	Management's responses to our audit queries were appropriate and received on a timely basis.

Other communications

Accounting policies, presentation and disclosures

31. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.

32. The accounting policies, which are disclosed in the annual accounts, are in line with the FE SORP, and are considered appropriate.

33. There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

34. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

35. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

36. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

37. As part of our standard audit testing, we have reviewed the laws and regulations impacting the College. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

38. We provided the final letter of representation to the Board of Management for signing at the same time as the financial statements are approved.

Related parties

39. We are not aware of any related party transactions which have not been disclosed.

Third party confirmations

40. We have received all third parties confirmations required for the purpose of our audit.

Financial sustainability

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

Financial sustainability

Auditor judgement	

The financial position of the College improved when compared to the previous year and estimates show projected surpluses for the next two financial years and a small deficit in 2023-24, when adjusted for non-cash items.

While the medium-term financial position of the College has stabilised, there remain a number of uncertainties in relation to COVID, student numbers and other sector wide issues which continue to increase financial risk and uncertainty.

The Board has short and medium-term financial plans in place and appropriate arrangements for financial monitoring and management.

The College manages its capital expenditure on an annual basis based on the Glasgow Colleges Regional Board (GCRB) allocation. We would encourage the College to have a mid to long term capital plan in place to help manage its estate and support the College in its discussions with funding providers.

Financial sustainability

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

Significant audit risk

41. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability
The College continues to face challenges, with ongoing effort and activity to reach a long term sustainable position. The 2020 Financial Forecast Return (FFR) outlined a savings requirement of £3.148 million over the three-year period from 2020/21 to 2022/23. In March 2021, the Scottish Funding Council (SFC) announced additional funding for colleges for 2020/21 and as a result the College has received £0.694 million of the funding. Currently, the College estimates that it will achieve a surplus position at the year-end, against the previously planned deficit of £0.796 million. This favourable change results from a combination of additional SFC funding, an allocation of pension funding, a net increase in non-SFC income and savings in voluntary severance cost and in Transformation and Renewal Plan cost. The College has also received net sums of £0.600 million because of HMRC agreeing a revised calculation methodology in relation to VAT treatment. Reducing staff costs is a key aspect of the College's ambitious savings plan and the workforce strategy should therefore be a key document in providing strategic direction and supporting delivery of these savings targets in a way that does not impact service delivery. Work is ongoing to prepare the 2021/22 budget and the medium-term financial plans (2021-24) are to be presented to the Board in June. The College is estimating surpluses in each of the three years. It represents an improvement in the financial sustainability position and allows the College's to move its focus into the management and control of their finance activities.

Noted in the 2020/21 Annual Audit Plan

42. The financial position of the College improved in the year due to the additional funding from the Scottish Funding Council of £0.694 million and HMRC related income of £0.790 million. This reduced the expected deficits for the next three financial years to more

manageable levels. When adjusted for non-cash items the College estimates small surpluses in two years to 2023 and a small deficit in the third year of 2023/24. As a result, the focus of our audit shifted to in-the-year managing of the financial position.

43. The College approved its 2021-24 budget in June and has prepared a three-year medium-term financial forecast as required by Financial Forecasting Return (FFR) process. The latest FFR, approved by the Board of Management in October 2021, reported the year-end position for 2020/21, the budget for 2021/22 and forward forecasts for 2021/22 and 2022/23. Our work and conclusions on the budget and financial forecasts for 2020/21 onwards is set out below and notes the ongoing challenges the College continues to face.

Short Term Financial Planning

44. Overall, the further education sector has received a 5.6% increase on revenue budgets for 2021/22, with the core teaching grant increase of 2.4% when compared to prior year. Scotland's further education sector continues to face a challenging financial situation in future years from the impact of national bargaining harmonisation/ job evaluation costs, cost of living pay award increases, general inflation, and pension increases and uncertainty of COVID impact.

45. The College is heavily reliant on SFC Grants which currently represent circa 77% of the College's total income (excluding non-cash deferred capital grants) and a small movement in grant funding has a significant impact on the College's financial position. The College has assessed a range of scenarios and stress tested assumptions to better understand the financial impact of potential changes and how they may manage and mitigate these changes.

46. The SFC published final colleges funding allocations in May 2021. The Glasgow Colleges Regional Board (GCRB) has subsequently provided a breakdown of allocations across the assigned colleges, including a top slice for the GCRB running costs and collaborative projects.

47. The 2021/22 SFC main grant allocation of £22.854 million consists of core funding of £22.306 million and £0.548 million of ESF funding which supports delivery of 79,063 of total credits.

48. The College prepared their budget for the year 2020/21 based on the indicative allocations and detailed forecasts available at the time. The key assumptions include:

- no additional budget for job role evaluation on the assumption that the potential impact will be funded in full externally;
- 2.5% salary increase;
- movements on pension liability are not included as these are deemed difficult to predict; and
- around £0.300 million has been allocated for essential ICT and digital inclusion purposes.

49. The budget for the year 2021/22 was presented to the Finance and Physical Resources Committee in May 2021, projecting an operating deficit of £0.129 million. Once adjusted for non-cash and exceptional items, the College has an underlying operating surplus of £0.313 million. This was further adjusted by the October 2021 FFR to a deficit of £0.245 million and a surplus of £0.197 million respectively.

50. This revision to the initial May 2021 budget was caused by the latest financial information, specifically the change to estimated savings from voluntary severance scheme and the impact of national insurance rate changes. Other factors include favourable movements in relation to additional funding from the SFC, better than expected debtors recoverability, income from Foundation Apprenticeships, furlough income and cost reduction targets being exceeded.

51. There are changes in assumptions in respect of SFC European Social Funding, with Foundation Apprenticeships now to be funded mainly through the SFC credits. Other types of income are estimated to be in line with 2020/21. Expenditure is expected to be higher in 2021/22 due to £0.430 million one off items of digital inclusion and mental health support.

52. The 2021/22 budget is based on a range of underlying assumptions. Whilst COVID restrictions are currently gradually being relaxed, there remains a level of uncertainty and, as such, the College will be required to keep the budgetary assumptions under review on an ongoing basis and update its forecasts to reflect any changes which may become apparent as the academic year progresses.

Medium Term Financial Planning

53. The FFR is an established part of the SFC's financial health monitoring framework. The FFR allows the SFC to monitor and assess the medium-term financial planning and health of colleges.

54. The latest FFR, requires colleges to report actual financial performance for the session 2020/21, forecasts through to 2023/24. The SFC has developed key assumptions with college Finance Directors that should be used in the FFR to support consistency and comparability across the sector. There is no Scottish Government budget beyond the year 2021/22 so the assumptions are indicative.

Financial Plans (£000s)

	2021/22 Budget	2022/23 Forecast	2023/24 Forecast
Total income	32,612	31,739	31,829
Total expenditure	(32,857)	(31,873)	(32,398)
Operating position	**(245)**	**(134)**	**(596)**
Adjusted operating result	**197**	**308**	**(127)**

Source: Financial Forecast Return 2021

55. College budgets assume small deficits in the current and next financial year, with an increased deficit in 2023/24. This increase is

caused by an assumption of a steady level of funding and increased staff costs at the same time. When adjusted for non-cash items the College estimates surpluses in the next two years and a small deficit in the final year of the forecast. The budget also considers a number of scenarios incorporating sensitivity analysis.

56. The Glasgow Kelvin College Arm's Length Foundation ('the Foundation') holds resources which could, if approved, be used to support the College's financial planning. At the end of the 2020/21 the Foundation had £1.798 million of funds available. Because the financial situation of the College in 2020/21 improved there was no requirement to use this funding. The College budgeted to use this funding for capital purposes over the next years which would reduce them to £0.688 million at July 2024.

57. The FFR also requires colleges to set out material risks to income and expenditure, and if possible, to quantify these risks, which should link to the college's risk register. The College identifies the following key risks:

- failure to deliver credits targets;
- failure to achieve sufficient levels of income
- Foundation Apprenticeships where change to credit funding may impact on income and delivery post 2021/22
- Pay settlements or changes to the terms and conditions might result in cost in excess of the budget and/or the staff cost savings might not realise.

Sector Developments

58. During 2020/21 SFC has published the following sector wide reports:

- Coherence and Sustainability: A review of Scotland's Colleges and Universities Phase One report: Insights to Develop Further (October 2020)
- Review of Coherent Provision and Sustainability: Progress Update Phase Two report (March 2021)
- Coherence and sustainability: Financial Sustainability of Colleges and Universities Phase Three report (June 2021).

59. The June 2021 report outlined a range of recommendations which could have significant and far-reaching impacts on the Tertiary Education sector in the medium to longer term.

60. The Scottish Government published its response to the SFC report in October 2021. The SG broadly accepted the majority of the recommendations, with some requiring further consultation and development. The next steps will include SFC developing an implementation plan and working closely with the Scottish Government and sector stakeholders.

Capital plans

61. The College has a high level Estates and Sustainability Strategy 2022-27 and maintains a short-term capital plan and its latest iteration covers 2020/21 and 2021/22 financial years. It is based on the Glasgow Regional Colleges Board's allocations which were as presented in the table.

Capital allocations (£000s)

	2020/21	2021/22
Lifecycle maintenance	591	570
High priority maintenance	500	499
Total	1,091	1,068

62. The capital expenditure plans are based on GCRB allocations and colleges sector estates condition survey prepared by a third party on behalf of the SFC. We understand that the SFC and GCRB funding works in annual cycles, however we would encourage the College to have a mid to long term capital plan in place to help manage its estate and support the College in their discussions with the funding providers.

Action Plan point 1

Financial management

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

Financial management

Auditor judgement	

The College is well managed financially, but faces unprecedented challenges as a result of the COVID-19 pandemic.

The College reports an operating deficit of £2.229 million for the year. Actuarial gains of £8.372 million moved the College's position to an accounting surplus of £6.143 million for the year.

The adjusted underlying operating surplus for the year was £0.876 million (£0.238 million in 2019/20).

The College's balance sheet records negative reserves of £6.514 million, reflecting mainly movements in pension liabilities which will be met over the longer term. The accounts also record cash balances of £3.783 million at July 2021 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

Financial Performance

63. The College reports an operating deficit of £0.245 million for the year ended 31 July 2021. After adjusting the operating position for non-cash items that are out with the control of the College, such as pensions and net depreciation, the College shows an adjusted underlying surplus of £0.876 million, the equivalent of 2.6% of total income.

64. The table below sets out the College's 2020/21 income and expenditure budget against results for the year:

2020/21 performance	Actual 2020/21 £'000	Projected Outturn 2020/21 £'000	Variance – Favourable/ (Adverse) £'000
SFC income	25,352	25,945	(593)
Tuition fees and education contracts	5,403	5,100	303
Other income	2,348	2,186	162
Donation from Learning Foundation	86	90	(4)
Total income	**33,189**	**33,321**	**(132)**
Staff costs	23,034	23,244	210
Voluntary severance	1,006	966	(40)
Other operating expenses	6,698	6,882	184
Depreciation	2,695	1,992	(703)
Total expenditure	**33,434**	**33,084**	**(350)**
Operating (deficit) for the year	**(245)**	**237**	**(482)**

65. The College's main source of income continues to be grant funding from the SFC (77% in 2020/21). The financial position improved in the year due to the following additional income:

- £0.694 million received from the SFC;
- £0.491 million from furlough payments; and
- £0.790 million of HMRC payments for Lennartz VAT case.

66. These movements offset favourably any decreases of commercial and other income which were negatively impacted by COVID-19. Consequently, the initial adjusted operating deficit of £0.796 million, budgeted in October 2020, was re-forecasted to a surplus of £0.679 million. While most of these additional income items could be seen as one-off, such significant movement helped the College to stabilise its financial position in the year and positively impacted years going forward.

67. The College's cash reserves were £3.783 million at year end, a significant increase from £1.827 million in the previous year. The reserves policy of the College is to maintain 15-25 days of cash and the College estimates to reduce the underlying cash position to £1.222 million at July 2022 to make it in line with requirement of maintaining a break-even position and having cash reserves for working capital purposes.

68. Expenditure was c.£1 million higher when compared to prior year's due to voluntary severance payments. Staff costs continue to be the highest area of spend for the College accounting for 72% of total expenditure and consistent with the previous year. Staff cost was lower than the projected outturn due to decrease in untaken holiday pay and unused balance of the costs projected for the additional teaching week.

The cost of voluntary severance in the year was £1.006 million and 44 members of staff took advantage of the scheme which enabled recurring savings of £1.029 million to be generated. A smaller voluntary severance programme is expected to continue into 2021/22.

Budget Setting

69. The Financial Memorandum between the GCRB and the assigned Glasgow colleges sets out the formal relationship between the GCRB and the College and the requirements with which the College must comply in return for payment of grant by the Regional Strategic Body.

70. The GCRB is responsible for leading the regional funding allocation process, however college input is necessary.

71. The Principal, supported by the Vice Principal Operations and Head of Finance, is responsible for preparing an annual revenue and capital financial plan, aligned to the College's strategic and operational plan, for consideration by the FPRC before submission to the Board.

72. The budget preparation process is built upon contributions from budget holders to ensure meaningful and achievable estimates are agreed.

Systems of Internal Control

73. We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

74. No significant issues were identified from our audit work. We consider the system of control in place at the College to be satisfactory.

Prevention and detection of fraud and irregularity

75. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

76. In accordance with the Audit Scotland's briefing *Covid-19: Emerging fraud risks* we have assessed whether the College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on changes in the control environment during the pandemic and fraud and corruption in the procurement function. We found that the College's arrangements are appropriate.

77. Regular updates on fraud related matters (including Counter Fraud Services updates), and the National Fraud Initiative (NFI) are presented to the Audit and Risk Committee.

National fraud initiative

78. The NFI is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

79. Participating bodies were required to submit data in October 2020 and received matches for investigation in January 2021. Investigation work was completed and there have been no instances of fraud or irregularities identified.

80. Overall we concluded that the College's arrangements with respect to NFI are satisfactory.

Standards of Conduct

81. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

82. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and scheme of delegation and for complying with national and local codes of conduct.

Governance and transparency

Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Governance and Transparency

Auditor judgement	

Governance arrangements at the College were found to be satisfactory and appropriate, including an induction programme for the new Board members.

The Board was subject to an externally facilitated effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review concluded that the College demonstrates a high level of compliance with the Code.

Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Regional Governance arrangements

83. The GCRB is making progress in coordinating collaborative regional activity and continues to work with the assigned colleges to deliver all of the intended benefits of regionalisation.

84. There is a financial memorandum in place between the GCRB and assigned colleges which ensures that the terms and conditions of grant funding are clear and understood.

85. Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between the GCRB and the Glasgow colleges. From review of available committee minutes and papers, we are satisfied that the College routinely considers reports on the development and implementation of the ROA.

Governance arrangements

86. The Board of Management is responsible for ensuring the overall governance of the College. In driving forwards the strategic direction of the College and ensuring the governance framework is operating as intended, the Board continues to be supported by four committees:

- Human Resources Committee;
- Audit and Risk Committee;
- Financial Control Committee;
- Learning and Teaching Committee.

87. The Board was subject to an externally facilitated effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review was performed by Henderson Loggie, the College's internal auditors and concluded that the College demonstrates a high level of compliance with the Code. The review highlighted number of strengths of the Board, including breadth and depth of knowledge, which combined with the range of expertise providing management with support and challenge.

88. Our review of the College's Governance Statement confirms that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the Accounts Direction.

Responding to the COVID-19 pandemic

89. The College responded quickly and effectively to the COVID19 pandemic and developed a comprehensive response plan which has successfully implemented the plan overseen by the Board.

90. The Board, its committees and senior management team have continued to meet during the COVID-19 pandemic with all meetings taking place online to oversee management of essential functions, management of impacts and preparedness for future functionality and delivery. There was no change to the meetings schedule or frequency of these meetings.

91. To ensure the Board were provided with the necessary resources, the College held online training session

for Board Members on Microsoft Teams as well as making an effective move to Board Self-Evaluation Sessions and Board Recruitment being held via video calls. Additionally, particularly in the initial stages of the pandemic, there was increased use of the Board's Executive Committee which met regularly to ensure effective governance, oversight and support to the Principal and Senior Management Team (SMT).

92. The impact of the COVID-19 pandemic has been a key feature of reporting to the Board and its Committees. The College's risk register has been updated to reflect the various risk impacts of the pandemic on the College's operations, including the development of mitigating actions where appropriate to reduce risk.

93. A Transformation and Renewal Group was established to produce and review the College's Transformation and Renewal Plan. Plans related to Covid-19 were part of the Groups remit. The Group was made up of members of the College's SMT and Management Team.

Board Changes

94. There have been a number of changes to the Board of Management from 1 August 2020 to the date of signing of the accounts on 13 December 2021: 7 new members joined, 5 existing members were reappointed, the tenure ended for 4 members and 2 members resigned. In view of the number of board-level changes in the financial year, we reviewed the induction process into the organisation and concluded that it provides those charged with governance with the information and platform to do so effectively. We are satisfied with the arrangements in place.

95. Through our review of the Governance Statement we are satisfied that the College has complied with the requirements of the SPFM and the Accounts Direction.

Internal Audit

96. An effective internal audit service is an important element of a College's overall governance arrangements. The College's internal audit service is provided by Henderson Loggie. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the College's total audit resource.

97. Internal Audit annual assurance opinion will be provided to the Audit and Risk Committee at the same time as this report. From discussions with the internal auditors and management we are not aware of any potential issues or adverse opinion.

Standards of conduct

98. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for

complying with national and local codes of conduct.

Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the College's reporting of its performance.

Value for Money

Auditor judgement	

2020/21 was a challenging year, with financial and liquidity indicators improving, but performance in relation to student engagement and Credit targets declining. The College has not met its Credit target, but by only 0.5%.

The College's geographical locations impact its student's population of which more than half comes from the 10% most deprived areas in Scotland. Performance in delivering Credit targets for these students is mixed. In 2020/21 the College delivered 36.6% of credits to such learners against 41.1% target and prior year 41.2% actual. We note that this outcome is significantly higher than the average for other Scottish Colleges of 17%.

The Board has appropriate performance management processes in place that support monitoring and managing the performance.

The College maintains good levels of student satisfaction.

Performance management arrangements

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

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

100. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. The College is committed to ensuring value for money is achieved through good procurement practice and optimal use of procurement collaboration opportunities.

Performance framework

101. The College is currently creating a New Strategic Plan for the period 2021-26 which outlines their strategic ambitions and priorities going forward. The key strategic ambitions are as follows:

- Deliver an Inspirational & Inclusive Student Experience;
- Strengthen our Communities and Environment; and
- Create a High Performing, Resilient and Responsive College.

102. To ensure that progress is being made, a balanced scorecard will be applied to monitor the situation.

103. The College also have in place their Strategic Plan 2020-23 and their Transformation and Renewal Plan 2020-23.

104. As at October 2021, the College has successfully achieved 84% of their Strategic Objectives and 100%of their Transformation and Renewal Objectives. The Strategic Objectives which are ongoing are in relation to being the partner of choice for Employers and Communities where the College operates.

105. Performance is monitored routinely throughout the year by the Board and Committees on regular basis and progress against performance measures is presented to the Board annually for challenge and scrutiny.

106. We are satisfied that the overarching themes set out within the Strategic Plan are fully aligned to reference and disclosures within the College's 2020/21 annual report and accounts.

Performance results

107. The College includes 11 of its Key Performance Indicators (KPIs) in the annual report and accounts. These focus on areas including non-SFC income, credit targets and liquidity ratios. These align to the efficiency measures, with increased focus on improving efficiencies in relation to Credit Targets. We note that only one of the KPIs has a target set (Credits) and performance for the other indicators can be implied by

comparing them relative to the previous years.

108. The College's performance against key performance indicators for academic year 2021 shows improvements in financial ratios, and lack of movement in other categories, with not meeting a target for the Credits delivery.

109. The College delivered 78,690 credits in the academic year against its target of 79,093 (or 0.5% below the target) as set by the Glasgow Colleges Regional Board for academic year 2020/21. The College enrolled 13,165 learners over the academic year, significantly more than 11,896 in the prior year and much closer to the pre pandemic levels.

110. The College faces particular challenges in maintaining its student numbers as it currently enrols more than a half of its students from the 10% most deprived areas in Scotland. Students from these backgrounds are often harder to reach and the College has invested heavily in its community education programmes.

111. The effects of COVID have impacted significantly on the College's ability to proactively engage, through community outreach, with some of Glasgow's most deprived citizens. In 2020/21 delivered 36.6% of credits to such learners against 41.1% target and prior year 41.2% actual. However, it should be also recognised that the level achieved continues to significantly exceed that of any other college in Scotland as the average across all colleges is around 17%

Retention rates and satisfaction surveys

112. The College recognises that the current retention levels are below sector averages. In response a review of the Class Tutor system has been carried out of the to identify opportunities to provide greater support for monitoring and responding to learner's progress. Additionally, the College is developing more comprehensive and consistent early warning systems which flag when learner attendance reduces and initiates a number of positive responses.

113. Whilst this is an ongoing challenge for the College, we are satisfied that appropriate action is being taken to improve the current situation. A review on the College's progress will be undertaken during our audit of the financial year 2021/22.

114. As the College continually aims to improve student experience, it is important to consider the Student Satisfaction Levels. Individuals who were satisfied with their college experience during 2020/21 were 83% (2018-29: 90%). This is lower than the National Average of 88.6%.

115. Additionally, when asked if the Online Learning Materials for the student's course have helped them learn, 83% of the proportion were satisfied, compared to a National Average of 84.2%.

Appendices

Appendix 1: Respective responsibilities of the College and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the College and the auditor and are detailed below.

The College's responsibilities

The College has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	The College's responsibilities
Corporate governance	The Board of Management and Chief Financial Officer (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements.	The Board have responsibility for: • preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the College. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the

Area	The College's responsibilities
	entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. The Board of Management and the Chief Financial Officer are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.

Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Further to our planning letter, we have identified that an audit partner from the firm has been seconded to SFC for a period of six months as a finance director. We can confirm that we have reviewed the threats that this poses to our independence and confirm that the appropriate safeguards have been in place throughout the audit to mitigate any associated risks.

Audit and non-audit services

The total fees (VAT inclusive) charged to the College for the provision of services in 2020/21 (with prior year comparators) are as follows:

	Current year £	Prior year £
Audit of College (Auditor remuneration)	35,320	33,140
Pooled cost	2,210	1,890
Audit support costs	1,440	1,810
Total audit	**38,970**	**36,840**
Non-audit services	0	0
Total fees	**38,970**	**36,840**

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We have outlined the safeguards to our independence in our Annual Audit Plan. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report which covers our work at LPF since appointment can be found at https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021

Appendix 2: Adjusted and unadjusted errors identified during the audit

Corrected and uncorrected misstatements

We did not identify any corrected misstatements during our audit of the Funds' annual report and accounts.

Unadjusted misstatements are presented in the table below.

Unadjusted items - current year						
No.	**Detail**	**SoCNE**		**Balance Sheet**		**Impact on SoCNE**
		Dr	**Cr**	**Dr**	**Cr**	
1 (*)	Repairs and renewals	£124,966				-£124,966
	Equipment - additions				£124,966	
	(Being removal of laptop additions per the capitalisation policy)					
2 (*)	Repairs and renewals	£106,217				-£106,217
	Equipment - additions				£106,217	
	(Being removal of laptop additions per the capitalisation policy in relation to prior year)					
3	Building Deferred Capital Grants			£84,741		
	Income		£84,741			£84,741
	(Being increase in release of Deferred Capital Grants in the year)					
4	National insurance	£39,700				-£39,700
	Pension costs	£55,500				-£55,500
	Admin staff salaries		£95,200			£95,200
	(Being split of job evaluation accrual compared to prior year)					

5	Deferred income		£217,000		
	Provisions			£217,000	
	(Being re-allocation of ESF provision from deferred income)				
6	Deferred income		£81,355		
	Income	£81,355			£81,355
	(Being re-calculation of the current ESF provision based on 2016/17)				
	Total impact on the Statement of Comprehensive Net Expenditure				**-£65,087**

(*) The College's historic approach to ICT expenditure is to write the amounts off to the Statement of Comprehensive Income and Expenditure as an expense due to the small value of individual ICT items and the fact that the SFC do not normally provide capital funding for ICT. However, during the year an individual capital grant was received from SFC for the amount above, specifically noting that it was for ICT capital expenditure and as a result the College treated the expenditure as capital. In line with FRS 102, a consistent approach should be taken in regard to capitalisation, thus the inconsistent treatment above has been regarded as an unadjusted difference.

Disclosure amendments

No	Detail
1	A number of prior year comparators needed updating to agree to audited 2019-20 financial statements.
2	Statement on responsibility for ensuring regularity of income and expenditure was added to the Accountability report.
3	Remuneration and staff report disclosures in relation to disable staff and training were added to the report.

Appendix 3: Action Plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

1. Capital plans

Issue: The capital expenditure, are based on the GCRB allocations and colleges sector estates condition survey prepared by a third party on behalf of the SFC. The capital plans prepared by the College in effect are only for one year.

Risk: We would expect the College has capital plans beyond one year to manage its asset base.

Recommendation: We understand that the SFC and GCRB funding works in annual cycles, however we would encourage the College to have a mid to long term capital plan in place to help manage its estate and support the College in their discussions with the funding providers.

Rating Other observation

Management comments: The College accepts this recommendation and will seek to develop a three to five year capital plan during 2021/22.

Responsible Officer: Vice Principal Operations

2. Deferred capital grants

Issue: We identified that deferred capital grants were not released in line with the useful life of the depreciated asset. This resulted in an extrapolated error of £0.080 million in the year which is included within Appendix 2.

Risk: The deferred capital grants are released in line with depreciation to ensure that there is a nil effect on the Statement of Comprehensive Income where assets are fully funded by capital grants. If the deferred capital grants are not released in line with the depreciation this means that the accounts could be misstated as a result.

Recommendation: We would recommend that deferred capital grants schedules are reviewed to ensure that any errors are identified to allow this to be corrected next year.

Rating **Other deficiency**

Management comments: This recommendation is accepted and the action will be carried out during 2021/22.

Responsible Officer: Head of Finance