Edinburgh College

2021/22 Annual Audit Report

To the Board of Management and the Auditor General for Scotland

December 2022

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Introduction

1. This report summarises the findings arising from our 2021/22 audit of Edinburgh College.

2. The scope of our audit was set out in our Annual Audit Plan presented to the 25 May 2022 meeting of the Audit and Risk Assurance Committee (ARAC). 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 2021/22 have been:

- a review of Edinburgh College's main financial systems
- an audit of Edinburgh College's 2021/22 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

Added value through the audit

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports and briefing papers (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

5. Edinburgh College has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.

6. Edinburgh College is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016, and supplementary guidance and International Standards on Auditing in the UK. 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. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

8. This report raises matters from our audit. 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.

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

Auditor Independence

10. Auditors appointed by the Accounts Commission or Auditor General 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.

11. 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 2021/22 audit fee of £31,450 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

Audit appointment from 2022/23

13. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

14. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Mazars will be the appointed auditor for Edinburgh College. We will work closely with the new appointed auditor to ensure a well-managed transition.

15. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

16. We would like to thank Board members, ARAC members, Executive Directors, and other staff, particularly those in finance for their co-operation and assistance over the last 6 years.

1. Audit of 2021/22 annual report and accounts

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

Main judgements

The financial statements give a true and fair view of the state of affairs of Edinburgh College at 31 July 2022 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework

We have no significant findings to report on the annual report and financial statements.

Our audit opinions on the annual report and accounts are unmodified

17. The annual report and accounts for the year ended 31 July 2022 were approved by the board on 13th December 2022. 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 governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

18. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

The annual audit report and accounts were submitted in line with our agreed audit timetable

19. For 2021/22, the target date for the submission of audited annual accounts of colleges is for deadline for the audited annual report and accounts is 31 December 2022.

20. The unaudited annual report and accounts were received in line with our agreed audit timetable on 23 September 2022. An amended version was subsequently provided on 30 September 2022 due to the College coming into receipt of pension information. This did not adversely impact on the team's ability to deliver the audit within the timescale.

Our audit approach and testing was informed by an overall materiality level of £0.80 million

21. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£0.80 million
Performance materiality	£0.52 million
Reporting threshold	£40,000

Source: Annual Audit Plan 2021/22

We have no significant findings to report on the annual report and financial statements

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 College's accounting practices. We have no significant findings to report from our review.

23. Our review did though identify that the College's fair pay disclosures did not meet with the requirements set out in the SFC's accounts direction 2021/22. In particular the disclosures did not include 25th and 75th quartile salaries, or set out salary figures or provide adequate explanation as required. During the audit process the College was able to provide amended disclosures which fully met with the reporting requirements.

24. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. Exhibit 2 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant risks of material misstatement in the financial statements initially reported in our 2021/22 annual audit plan (AAP)

Audit risk (from AAP)	Assurance procedure (from AAP)	Results and conclusions
1. Risk of material misstatement due to fraud caused by the management override of controls As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise are operating effectively.	Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.	**Results & Significant Judgements:** We confirmed that the controls in place in the ledger still do not prevent staff from uploading unauthorised journals. However we did not find any issues from testing a sample of journals and found that all were appropriately authorised and were adequately supported. We confirmed with College finance staff that there had been no unusual or inappropriate activity relating to the processing of journals. We did not identify any unusual transactions outside the normal course of business. We confirmed that appropriate arrangements are in place to identify and disclose related parties and relevant transactions. We confirmed that significant estimates were based on consistent assumptions which remained appropriate and reasonable. Sample testing of income and expenditure items confirmed that they had been allocated

Audit risk (from AAP)	Assurance procedure (from AAP)	Results and conclusions
	Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments.	to the correct accounting period. Testing of accrual and prepayments found no issues. **Conclusion:** Satisfactory – we found no evidence of management override of controls from our review.
2. Estimates and judgements: valuation of land and buildings Edinburgh College held land and buildings with a NBV of £160.0 million as at 31 July 2021, with land and buildings revaluated on a five-year cycle. A material uncertainty clause was included in the latest in revaluation in 2020 due to the impact of Covid-19 on the property market at that time. In 2020/21 the valuer confirmed that the values of the College's land and buildings as at 31 July 2020 remained correct and fair, but advised that buildings should be indexed by 5% that year due to property market changes. This resulted in a material adjustment of £7.0 million.	Assess the approach the College has adopted for the valuation of land and buildings. Assess the College's assumptions for the valuation of land and buildings and the adequacy of the disclosures in its financial statements. Completion of 'review of the work of an expert' in respect of the property valuer. Test the reconciliation between the financial ledger and the property asset register to ensure that any in-year valuation movements are correctly accounted for.	**Results & Significant Judgements:** The College confirmed that it had consulted with its property valuer and had received an updated valuation based on a desk-top review. Upon reviewing the valuation report we confirmed that it was reasonable and was based on a consistent approach with prior years. We also confirmed that the College had undertaken an impairment review of its property assets during the year, although the documentation could be improved. We carried out a review of the valuer and found no they are appropriately qualified. We confirmed that the financial ledger was fully reconciled to the property asset register. **Conclusion:** Satisfactory – the College was able to demonstrate that the carrying value of its property assets at 31st July 2022 was not materially misstated. As per item 1 in Appendix 1, the College should give further consideration to the

Audit risk (from AAP)	Assurance procedure (from AAP)	Results and conclusions
		assurances it requires from its valuer in 2022/23.
3. Estimates and judgements: valuation of retirement benefit obligations Edinburgh College is a member of the Lothian pension fund (i.e. the local government pension scheme) and accounts for it under the relevant accounting standard (FRS 102). At 31 July 2021 the obligation was £43.5million. The present value of the retirement (pension) obligations depends on a number of factors that are determined on an actuarial basis underpinned by a series of assumptions. There is a risk that errors in the information provided to the actuary or in the underlying assumptions, or late information, can result in a material misstatement.	Review of information provided by the College to its actuary. Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions. Review evidence confirming that the College's management has assessed the estimate provided by its actuary. Testing of pension disclosures in the financial statements, including disclosures in the key estimates and judgements note	**Results & Significant Judgements:** We confirmed that the College had provided accurate data to its actuary. We confirmed that the actuary is appropriately qualified to provide an estimate, and that the assumptions applied are reasonable. Management assessment was confirmed through discussion and confirmation that the College requested additional information from its actuary. Our testing confirmed that disclosures in the financial statements were consistent with the actuary's report. We also recommended further narrative to support the disclosure of a net pension asset in 2021/22. This was based on further advice provided by the actuary. **Conclusion:** Satisfactory – the disclosures regarding the retirement benefit obligation were confirmed as reasonable and in line with advice from the actuary.

Other areas of audit focus

25. We also identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The area of specific audit focus highlighted in the annual audit plan was:

- Provisions: The College holds a contract for the placement of student in residential accommodation. The contract includes clauses in relation to a guarantee of occupancy by the College. As there is uncertainty as to the timing and amounts of any payments required, management consider it to be onerous. The College has therefore made a provision for the estimated costs it is obliged to pay under the terms of the contract.

26. We kept this area under review throughout our audit. During the course of the year the provision was fully written-down following a settlement between the College and the landlord. We reviewed the supporting papers and confirmed that the accounting entries were appropriate.

There were no identified misstatements

27. During the course of our audit we did not identify any misstatements.

Good progress was made on prior year recommendations

28. The College has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out 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 a small deficit in the 2021/22 adjusted operating position due to costs associated with voluntary severance

Financial systems of internal control were generally operating as expected with the College taking action to improve journal authorisation processes.

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

Edinburgh College reported a small deficit in the 2021/22 adjusted operating position due to costs associated with voluntary severance

29. As shown in Exhibit 3, Edinburgh College reported an operating deficit before other gains and losses of £8.1 million in the Statement of Comprehensive Income for the year ended 31 July 2022. The deficit increased by £1.5 million (23 per cent) from 2021/22.

Exhibit 3
Financial performance in 2021/22

Financial performance	21/22 (£m)	20/21 (£m)	Movement (£m)
Income	72.0	70.3	1.7
Expenditure	(80.1)	(76.9)	(3.2)
Surplus/ (deficit) for the year	**(8.1)**	**(6.6)**	**(1.5)**

Source: Edinburgh College annual report and financial statements 2021/22

30. The 2021/22 accounts direction from the SFC requires the disclosure of an adjusted operating position. This is intended to reflect the underlying operating performance after allowing for material one-off or non-cash items (e.g. depreciation, pension adjustments, exceptional income or expenditure).

31. The College's adjusted operating position in 2021/22 was a deficit of £0.1 million, see Exhibit 4. The adjusted deficit represents 0.2 per cent of total income. The College had originally budgeted for a break-even position. One significant reason for the deficit is the £1.6 million spent on voluntary severance. This should result in future year savings for the College.

Exhibit 4
Adjusted operating position in 2021/22

Adjusted operating position	2021/22 (£m)	2020/21 (£m)	Movement (£m)
Surplus / (Deficit) before other gains and losses	(8.1)	(6.6)	(1.5)
Depreciation (net of deferred capital grant release)	2.8	2.7	0.1
Non-cash pension adjustments	7.5	5.7	1.8
Early retirement provision charged to SoCI	(0.4)	(0.2)	(0.2)
Revenue funding allocated to loan repayments and other capital items	(0.8)	(0.7)	(0.1)
Cash paid out on the provisions	(1.1)	-	(1.1)
Adjusted Operating Surplus	**(0.1)**	**0.9**	**(1.0)**

Source: Edinburgh College annual report and financial statements 2021/22

Budget processes were appropriate

32. 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.

Financial systems of internal control were generally operating as expected with the College taking action to improve journal authorisation processes

33. We carried out walkthrough testing of the main financial systems during 2021/22. This included the review of bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Our review also covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud in areas such as grants. We concluded that the controls operated as expected, with the exception of journal authorisation.

34. As reported in previous years there is a lack of a control in the Agresso system to prevent staff uploading unauthorised journals. Management has developed short-term manual processes to ensure that journals are appropriately authorised. Management has also taken steps to address this with the system manufacturer and a solution is expected to be in place for 2022/23.

35. We also previously reported an issue regarding the evidence of management checks on payroll standing data. We confirmed that this has been fully addressed in 2021/22.

Internal audit

36. The body's internal audit function is carried out by a firm of accountants. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2021/22 is that the risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable assurance for the period under review.

37. We reviewed the College's internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. While we decided not to place formal reliance on the work of internal audit, we did consider several reviews as part of our audit. These included Credits/FES, Student Support Funds, Workforce Planning, Covid-19: Quality and Student Assessment, Development and Delivery of Digital Learning.

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

38. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. However this could be strengthened by improved availability of the fraud response plan. This was formally part of the financial regulations but was removed. Before the audit was concluded, the College reinstated the fraud response plan in the financial regulations. This updated document was confirmed as available on the College website.

39. 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

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

41. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Edinburgh College actively participates in the initiative. During the year we reviewed the College's approach to the most recent exercise and confirm the arrangements were appropriate.

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 forecasts financial deficits for the next four years and is refining savings plans to meet this challenge.

Detailed planning is required to ensure that the College operates within existing resources whilst meeting learning targets.

We have obtained audit assurances over the wider audit dimension risks relating to Financial Sustainability identified in our 2021/22 Annual Audit Plan

42. Exhibit 5 sets out the significant risks of material misstatement we identified in our 2021/22 Annual Audit Plan, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 5

Risks identified from the auditor's wider responsibility under the Code of Audit Practice and initially reported in our 2021/22 annual audit plan (AAP)

Audit risk (from AAP)	Assurance procedure (from AAP)	Results and conclusions
Financial sustainability In March 2022, the College's financial forecasts for 2022/23 to 2025/26 showed that cumulative savings of £5.1 million will be required to achieve its projected break-even 'adjusted operating position' in each of the four years. The Scottish Government provided a 'flat cash'	Review of the College's five-year financial plan including monitoring of progress with achievement of financial targets, planned savings and student credit targets. Monitoring of the College's progress with the development of a longer-term financial strategy, including the assumptions used	**Results & Significant Judgements:** We reviewed the College's financial forecasts and confirmed that it does have plans in place to off-set future real-terms reductions in financial settlements and increases in staff and other costs. A main component of that is voluntary severance which has been used in recent years to reduce staff costs.

Audit risk (from AAP)	Assurance procedure (from AAP)	Results and conclusions
settlement to the college sector for 2022/23. This resulted in a 3.6% reduction in the funding allocation for Edinburgh College, which included the additional funding provided in light of Covid-19 no longer available. In addition, the College faces a number of financial challenges such as rising energy costs and staff pay increases. The College is implementing a voluntary severance scheme and considering removing vacant posts to achieve further savings. 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.	Review of the College's Financial Forecast Return for 2022/23-2024/25.	The College has developed a medium-term financial strategy for the period from 2022 to 2025. This sets out the savings it requires to meet the forecast funding shortfall over the period. **Conclusion:** ongoing risk - The College is taking appropriate steps to manage this risk but further action will be required to ensure that it operates within available resources whilst meeting learning targets.

The College forecasts financial deficits for the next four years and is refining savings plans to meet this challenge

43. The College's most recent financial forecasts to the SFC predicts successive deficits on its adjusted operation position from 2022/23 to 2025/26 totalling £2.5 million. The forecasts allow for factors such as 'flat cash' funding settlements from the SFC, inflation in energy and other costs and staff pay awards. Further revisions may be required dependent upon the result of ongoing pay negotiations which could see annual running costs increase by around £1.8 million.

44. The forecasts also anticipate future savings, most notably from voluntary severance schemes and unfilled vacancies. Voluntary severance costs are forecast to be £2.5 million over the next four years to produce cumulative recurring savings of £4.3 million. The College expects it will have to fund these costs from existing resources.

Detailed planning is required to ensure that the College operates within existing resources whilst meeting learning targets

45. When taking into account the current year severance scheme, the College plans to reduce its staffing compliment by more than ten per cent. It will have to manage these departures in such a way to ensure that it can still deliver its learning targets over the period. This will require detailed planning as a reduction in learning activity could result in further reductions in funding.

46. The College has developed a medium-term financial strategy for the period from 2022 to 2025. This sets out the savings it requires to meet the forecast funding shortfall over the period. It also sets out likely costs which will be incurred in the short-term to make the required savings. It also sets out potential risks in relation to the College being able to continue to meet learning targets.

4. Governance and transparency

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

Main judgements

The governance arrangements and controls operating at the College remain appropriate.

The College has appropriate arrangements in place to manage risks regarding cyber security.

The governance arrangements and controls operating at the College remain appropriate

47. We commented on governance arrangements in our report last year and concluded that appropriate arrangement were in place during the Covid-19 pandemic. In 2021/22 as restrictions have reduced, governance arrangements have adapted. In particular, two Board meetings were conducted in-person while all other Board/committee meetings were conducted virtually. All meetings were well attended.

48. There were a number of changes to the Board membership over the period. A new Chair, Nora Senior, was appointed in July 2022 while a further eight new appointments were made. There were ten departures from the Board during the year, including the former Chair of the ARAC. While a new long-term chair of the ARAC has still to be appointed, these changes address points raised in our report last year.

The performance report was of a good standard

49. 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.

50. Last year we commented on improvements made to the performance report in areas such as risk assessment. Further improvements to the disclosure of risks and other parts of the report were highlighted during the audit process.

These changes ensured that the performance report was consistent with the SFC's accounts direction and the FReM.

The College has appropriate arrangements in place to manage risks regarding cyber security

51. Last year we confirmed that the College had implemented seven recommendations from an internal audit report on cyber security. In the period since then, it has fully implemented a further recommendation and has partially addressed the remaining two.

52. In addition to that, we confirmed that there are annual reports to the ARAC summarising cyber activity. This includes any new developments to improve security. Furthermore, cyber security features prominently on the top-level risk register. Overall we are satisfied that the College has appropriate arrangements in place to manage the risk regarding cyber security.

5. Value for money

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

Main judgements

Edinburgh College has an appropriate performance management framework in place.

Edinburgh College's service performance levels improved in most categories in 2021/22.

Edinburgh College has an appropriate performance management framework in place

53. Last year we commented that the College reports KPIs quarterly to the Board through the Principal and Chief Executive report. Through review of Board papers we conformed that this has continued throughout 2021/22. The format of these reports has remained consistent. As such we are content that that the performance management framework is appropriate and provides the Board with suitable information on the College's performance.

Edinburgh College's service performance levels improved in most categories in 2021/22

54. 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 189,439 credits. The number of credits delivered in 2021/22 represented a reduction of 4,561 credits (2 per cent) from the previous year. The College's internal auditor carried out an annual check to confirm the accuracy of the reported activity/credits.

55. The quarter four KPI report, presented to the Board in September 2022, highlighted performance regarding credits, financial adjusted operating position, enrolment, recruitment and retention amongst others. This format is consistent with previous quarterly reports presented to the Board and the performance report within the annual report and financial statements. This provides the organisation with the appropriate means to measure and manage performance.

56. The quarter four report also confirmed that the core credit target had been met, although the overall target had not. It confirmed that the College reported a minor deficit on its adjusted financial position which is consistent with the accounts. The report also reported improvements in enrolment, recruitment and retention

57. 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 7. This shows improvement across all categories with the exception of full-time HE.

Exhibit 7
Key performance indicators – trend analysis

KPI	2021/22	2020/21	2019/20	2018/19	2017/18
Full-time FE aged 16-19	55.8%	50.6%	58.5%	46.5%	54.9%
Full-time FE	60.6%	57.5%	58.5%	56.0%	60.7%
Full-time HE	64.8%	72.0%	74.4%	69.8%	71.3%
Part-time HE	80.8%	78.5%	60.0%	75.5%	84.3%
Part-time FE	75.0%	68.7%	54.6%	66.2%	70.8%

Source: Edinburgh College annual report and financial statements 2017/18 to 2021/22

National performance audit reports

58. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 a number of reports and briefing papers were published which may be of interest. These are outlined in Appendix 2.

59. Scotland's colleges 2022 was published in July 2022 and was based on results from college accounts for 2020/21. It found that Scotland's colleges responded well to Covid-19, but changes are needed to ensure they are financially sustainable in the long term and more students graduate. The ARAC considered this report in its meeting on 12 October 2022.

Appendix 1. Action plan 2021/22

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Impact of Covid-19 on land and buildings valuation **2020/21 AAR** 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.	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.	In progress – the College received correspondence from its valuer in 2021/22 which resulted in a change in the carrying value on the basis of indexation. While this approach is satisfactory for the current year, the College should consider what assurances it requires in 2022/23. This consideration should determine whether a full revaluation is appropriate in 2022/23 given the indexation changes in 2020/21 and 2021/22. Revised action Agreed; the College will seek advice from its valuer during the year 2022/23 to ascertain whether L&B values remain appropriate, and then make appropriate adjustments to the carrying values as required. Responsible officer Acting Head of Finance Revised date 31 July 2023

Issue/risk	Recommendation	Agreed management action/timing
Risk – There is a risk that the carrying value of the land and buildings assets is materially different to their fair value.		
2. Impairment review **2020/21 AAR** 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.	In Progress – during the audit the College provided correspondence from the Estates manager that none of the properties had suffered any impairments. While this satisfied the audit requirements, this process could be improved to produce a document around the year-end date which was subject to approval. Revised action Agreed; the College will enhance its procedures by collating impairment information on a quarterly basis. Commencing in the 2nd quarter of 2022/23. Responsible officer Acting Head of Finance Revised date 31 January 2023
3. Significant estimates and judgements **2020/21 AAR** 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.	The College should consider further improving its note on significant judgements and estimates within its annual report and accounts.	Complete – although the draft accounts presented to audit did not provide an enhanced significant estimates and judgements note, this was amended as part of the audit.

Issue/risk	Recommendation	Agreed management action/timing
Risk – There is a risk that the significant judgements and estimates are not useful for the reader of the accounts.		
4. Financial sustainability **2019/20 AAR** In line with the rest of the college sector, Edinburgh College is continuing to face significant financial challenges. To achieve a break-even ‘adjusted operating position’ over the next five years, the College needs to achieve cumulative savings of up to £4.8 million. It will need to make some tough decisions to achieve these savings. Risk – There continues to be a risk that the College will not be able to achieve the forecast savings, and this could lead to significant cash/ liquidity issues.	The College should keep its projected savings under review to ensure they are realistic and achievable.	Complete – although the underlying risk remains, the College has taken reasonable steps to date to mitigate its impact. While further work will be required in future years, there is evidence that the College is taking reasonable steps primarily through its voluntary severance programme.

Appendix 2. Summary of 2021/22 national reports

September

Covid 19: Vaccination programme

January

Planning for skills

Social care briefing

February

NHS in Scotland 2021

March

Local government in Scotland: Financial Overview 20/21

Drug and alcohol: An update

Scotland's economy: Supporting businesses through the Covid 19 pandemic

May

Local government in Scotland: overview 2022

Social security: Progress on implementing the benefits

June

Scotland's financial response to Covid-19

July

Scotland's colleges 2022

Edinburgh College

2021/22 Annual Audit Report

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