



# Inverness College

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

**Year ended 31 July 2022**

8 February 2023



**EY**  
Building a better  
working world

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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Inverness College (the College) for financial years 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the College and is made available to the Auditor General for Scotland and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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

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# Executive Summary: Key Conclusions from our 2021/22 audit

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We have issued an unqualified audit opinion on the College's 2021/22 financial statements.

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We continued to review and update our risk assessment throughout the audit, including the materiality level applied. Our materiality levels were amended to reflect the increase in expenditure in 2021/22.

## Financial Statements

We have concluded our audit of the College's financial statements for the year ended 31 July 2022. Four audit differences were identified and have been reflected in the financial statements, and there were two unadjusted misstatements above our reporting threshold that we are required to communicate. The draft financial statements and supporting working papers were provided in line with the agreed audit timetable and were of a good standard. We worked with the finance team to update the financial statement disclosures, including in relation to the performance report and the new requirements in the Government Financial Reporting Manual ('the FReM') around remuneration report disclosures.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the disclosures reflect the College's compliance with the *Code of Good Governance for Scotland's Colleges*.

## Going Concern

In accordance with the FReM, the College prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

Under a revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. After completing its going concern assessment the College has concluded that there are no material uncertainties around its going concern status. We were satisfied that the College remains a going concern and has made appropriate required disclosures in the financial statements. We have considered the related risks to the financial sustainability of the College and its longer term delivery of strategic objectives in our wider scope reporting.

We have no matters to report in respect of our work around going concern or the conclusions reached by the College.

## Wider Scope

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

### Financial Sustainability



The wider financial landscape in which the College operates was already challenging, and the Covid-19 pandemic alongside the impact of the economic and geopolitical environments, including supply chain challenges and inflationary pressures, has resulted in further significant financial pressures. This creates a risk that the College will not be able to develop viable and sustainable financial plans.

The College submitted a financial forecast return in September 2022 to the Scottish Funding Council which outlines a cumulative underlying operating deficit position over the five years of £0.34 million. A second financial forecast return has been prepared by management using more pessimistic assumptions around pay and cost inflation, under which the cumulative deficit position increases to £8.9 million.

Management continue to explore options to deliver savings and grow income, however the scale of the challenge is significant and although the College has tended to outperform budget in prior years, this is not guaranteed.

### Financial Management



The College reported an adjusted operating surplus of £0.43 million (2020/21: £1.85 million surplus). We were satisfied that the College's financial monitoring and reporting was clear and consistent throughout the year.

The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board, Finance and General Purposes, and Audit committees throughout the year. We are satisfied that the core financial management arrangements were not materially impacted as a result of Covid-19 or other external pressures, with clear financial reporting continuing throughout the year.

### Governance & Transparency



The key features of good governance remain in place at the College and have been operating effectively throughout the year. A hybrid meeting structure for the Board was implemented after seeking the views of members and a Board self-evaluation was conducted during the year.

All planned internal audit assignments were completed in 2021/22 with no findings requiring urgent attention from management. Internal audit concluded that adequate and effective governance arrangements were in place during the year.

Good progress has been made in actioning recommendations from the 2021 External Effectiveness Review. However, although trackers are subject to periodic review, limited progress was made in actioning recommendations from internal audit. As at October 2022, only 27% of recommendations had been fully implemented. Management removed 12 recommendations from the tracker as they were not deemed to be high priority for the College. The Board should ensure remaining actions are progressed in line with their agreed timescales.



# Introduction

## Purpose of this report

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

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

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

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

## Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

As a result of the impact of Covid-19, Audit Scotland agreed to extend our appointment as external auditor of the College to 2021/22.

## Scope and Responsibilities

The Code sets out the responsibilities of both the College and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the College's Audit Committee in June 2022.

### Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £579,000. We considered whether any change to our materiality was required, including due to the College's 2021/22 financial performance. As a result of increased expenditure in year, our materiality was revised to £605,000.

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

We updated our assessment of materiality based on the 2021/22 financial performance. Planning materiality was increased from £579,000 to £605,000.

Overall Materiality	Tolerable Error	Nominal amount
£605,000	£302,500	£30,250
2% of the College's operating expenditure	Materiality at an individual account level	Level that we will report to committee

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

### Financial statement audit

We are responsible for conducting an audit of the College's financial statements. We provide an opinion as to:

- whether they give a true and fair view of the state of affairs of the College as at 31 July 2022 and the deficit for the year then ended;
- whether they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- whether they have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

### Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice requires auditors to provide judgements and conclusions on the two dimensions of wider scope public audit set out in the Code which comprise the wider scope audit for small public sector bodies in Scotland. These are Financial Sustainability and Governance and Transparency. We outlined in our Annual Audit Plan that, given the lasting impact of Covid-19 and associated risks around robust budgetary controls, we would also consider the Financial Management dimension as part of our work in 2021/22.

Our findings are summarised in Section 3 of this report.



# Financial Statements audit

## Introduction

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

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

The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- the risk of fraud in revenue and expenditure recognition (significant risk); and
- misstatements due to fraud or error (fraud risk).

## Compliance with Regulations

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

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

Management provided draft financial statements at the start of the audit, in line with the agreed timetable. The financial statements had been updated for the new requirements as outlined in the SFC's 2021/22 Accounts Direction for colleges.

The draft financial statements and supporting working papers were of a good quality and submitted for audit in line with planned timescales.



## Audit Outcomes

We identified four adjusted audit differences arising from the audit which have been reflected within the financial statements. The differences mainly related to the valuation of the pension liability based on updated inflationary assumptions, the increase to the provision for potential SFC funding clawback, and the revaluation of fixed assets. There were two unadjusted differences above our reporting threshold which related to an overstatement of fixed assets and the disclosure of the NPD liability. The two unadjusted misstatements are not material.

Our overall audit opinion is summarised on the following page.

# Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
<p><b>Financial statements</b></p> <p>The financial statements provide a true and fair view of the state of affairs of the College at 31 July 2022 and of the deficit for the year then ended.</p> <p>The financial statements are prepared in accordance with the financial reporting framework</p>	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable.</p> <p>We have considered the financial statements against the financial reporting requirements, and additional guidance issued by the SFC and Audit Scotland.</p>	<p>We issued an unqualified audit opinion on the 2021/22 financial statements for the College.</p>
<p><b>Going concern</b></p> <p>We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting</p>	<p>We conduct core financial statements audit work, including management’s assessment of the appropriateness of the going concern basis.</p> <p>Wider scope procedures, including financial forecasts are considered as part of our work on financial sustainability.</p>	<p>In accordance with the work reported in this report, our audit opinion is unqualified in this respect.</p>
<p><b>Other information</b></p> <p>We consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit</p>	<p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> <li>Review of committee minutes and papers, regular discussions with management, our understanding of the College and the wider sector.</li> </ul>	<p>We are satisfied that the annual report materially meets the core requirements set out in the Accounts Direction.</p>
<p><b>Report on regularity of income and expenditure</b></p> <p>We are required to consider whether in all material respects the income and expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers</p>	<p>Our procedures include:</p> <ul style="list-style-type: none"> <li>Understanding the applicable enactments and guidance issued by the Scottish Ministers</li> <li>Performed detailed testing of income and expenditure to ensure transactions are in line with enactments and guidance</li> </ul>	<p>We are satisfied that in all material respects income and expenditure are regular.</p>
<p><b>Matters prescribed by the Auditor General for Scotland</b></p> <p>Audited part of Remuneration Report has been properly prepared.</p> <p>The Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.</p>	<p>We are required to report on whether the sections of the Remuneration and Staff Report, and Accountability Report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.</p>	<p>We have no matters to report.</p>
<p><b>Matters on which we are required to report by exception</b></p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit</li> </ul>	<p>We have no matters to report.</p>

# Significant and fraud audit risks

## Risk of Fraud in income and expenditure recognition

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

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

## Specific procedures relating to significant risks

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

- Review and test all relevant income and expenditure policies against the relevant accounting standards and SORP;
- Review, test and challenge management around any accounting estimates on income and expenditure recognition for evidence of bias;
- Develop a testing strategy to test all material income and expenditure streams;
- Test all material grant income with performance conditions to ensure income is recognised correctly in line with the outlined requirements;
- Review and perform focused testing on income and expenditure around the year-end to ensure correct recognition around cut-off between financial periods;
- Perform testing for any evidence of clawback of income where conditions for entitlement have not been met;
- Review and develop a testing strategy for Covid-19 related income streams, including additional Covid-19 related grant income; and
- Assess and challenge manual adjustments or journal entries by management around the year end for evidence of management bias and evaluation of business rationale and evidence.

## Our conclusions

- Our testing identified one misstatement relating to revenue and expenditure recognition, as outlined in Appendix D to this report. The difference related to the necessary increase in potential clawback of SFC funding which is an issue pervasive across the sector where credit targets are not achieved. This was an area of management judgement and income was adjusted once updated guidance from the SFC was received.
- We have assessed the treatment of Covid-19 related income streams, including additional Covid-19 related grant income. We concur with management's accounting treatment for these revenue streams.

### Risk of management override

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

### Risk of Fraud

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

### Testing of Journal Entries

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- Journals entries made around year end; and
- Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

### Our conclusions

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or financial statement disclosures.

## Judgements and Estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and was applicable to the 2020/21 audit for the first time with a continuing focus in 2021/22. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes; and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process-estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate estimate.

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

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements.

## Accounting Policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the College to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under the Further and Higher Education SORP 2019.

### Our conclusions

- We did not identify any areas of significant estimation or judgement as part of our audit work where we disagreed with management over the accounting treatment.
- There were no significant accounting practices which materially depart from what is acceptable under the College's financial reporting framework.

# Other Inherent Risk Areas

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

## Valuation of Property, Plant and Equipment

The College's property, plant and equipment (PPE) portfolio totals almost £56.9 million (2021: £52.3 million), with an upwards revaluation adjustment of £6 million being processed in the financial statements. The valuation of these assets requires expertise and significant estimation. To meet the requirements of the accounting framework, the College values its property, plant and equipment on at least a 5 yearly cycle, with interim valuations undertaken at the mid-point of the cycle in accordance with the FReM. The College's PPE totals £56.9 million, an increase of £4.6 million from 2020/21. This movement includes additions of £0.18 million, depreciation of £1.4 million and a revaluation gain on land and buildings of £6 million.

In 2021/22, the College's former campus site at Longman Road continued to be classified as held for sale and was valued by an external valuer, Montagu Evans, to obtain an updated valuation as at 31 July 2022. This resulted in an updated carrying value of £2.3 million (2020/21: £2 million). No new offers were made on the site during the year, in part due to a lease on a telecoms unit owned by an external party which is located on the site being under negotiation in late 2022. Uncertainty over the lease arrangements was considered to have had a negative impact on development potential for prospective buyers. However, we confirmed that the site is being actively marketed and the College hope to dispose of the asset during 2022/23, therefore overall we were satisfied that the classification as held for sale was appropriate.

Land and buildings were due for an interim revaluation, 2021/22 being year three of the valuation cycle, which was undertaken by the College's external valuer, J.E. Shepherd. The College values its assets on the basis of Depreciated Replacement Cost (DRC) in line with the requirements of the FReM. This calculates a valuation based on the 'deprival concept', being the cost of rebuilding the assets as if they no longer existed, adjusted for factors such as property conditions. The significant upwards valuation movement can be attributed to increased build costs driven by high inflation, and the additional costs associated with constructing assets in a remote location.

Our work focussed on:

- Considering the work performed by the College's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Testing key asset information used by the valuers in performing their valuation (e.g. review of comparable property information and an assessment of the reasonableness of the price per square meter applied by the valuer).
- Completed procedures designed to address the requirements of the revised ISA 540, as outlined earlier.
- Assessment of whether the valuation movement was properly reflected in the financial statements and transferred correctly to the revaluation reserve.
- Assessment of the potential for impairment across the College estate that had not been reflected in the financial statements.

#### Our conclusions

- Two audit adjustments were identified with respect to the College's valuation of assets in 2021/22. The first (£6 million) was due to the interim revaluation of land and buildings not being completed until December 2022 and was therefore not reflected in the draft financial statements. This was adjusted for by management and the upwards revaluation was processed through the revaluation reserve. The second adjustment (£0.1 million) related to the calculation of the valuation of the main Inverness campus building which resulted in an overstatement of fixed assets. This was not adjusted for in the financial statements and is not material.
- We concluded that the assumptions and methodology applied by the College's external valuer were reasonable.

## Valuation of pension assets and liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (Highland Pension Fund) and the Scottish Teachers Superannuation Scheme (STSS). At 31 July 2022, the College's share of the local government pension scheme was originally a net liability totalling £0.1 million (2020/21: £16.3 million net liability). The actuary, however, had not allowed for the 2023 Pension Increase Order which increases pensioner payments by CPI and a subsequent allowance of £1.9 million was made, resulting in an updated year-end net liability of £2 million.

The College has accounted for its contributions to the STSS as if it were a Defined Contribution Scheme, as it is not possible for the College to identify its share of the underlying assets and liabilities of the scheme. Employer contribution rates were 23% in 2021/22 (2020/21: 23%).

Accounting for the Highland Pension Fund involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach included:

- obtaining an actuarial report at the year-end date for the scheme and considering the reasonableness and consistency of actuarial assumptions underpinning such reports in conjunction with our internal specialists;
- performing substantive testing on the verification of the pension assets. Specifically, we engage with the auditor of Highland Council Pension Fund in line with the assurance protocols laid out by Audit Scotland. We also analysed the fund's estimated asset position at 31 July 2022 from the prior year-end against expectations based on equity and other market movements;
- developing our own point estimate for the College's liabilities in the Fund and comparing to the actuary's assessment;
- assessing the work of the actuaries in considering the impact of legal rulings impacting the liabilities in the fund; and
- reviewing the calculation of the College's valuation of future early retirement liabilities at 31 July 2022, including the integrity of the underlying pensioner data used by the actuary and College.

### Our conclusions

- We assessed the reasonableness of the calculation of the College's share of the Fund's assets and liabilities and concluded these are consistent with our expectations. No issues were reported by the auditor of the Fund in respect of the Fund's controls or reported asset position.
- Assumptions used by the actuary and adopted by the College are considered to be generally acceptable. The sensitivities surrounding these assumptions were correctly disclosed in the notes to the financial statements.
- No audit adjustments relating to the pension disclosures, other than the adjustment relating to the pension increase order as outlined above, were identified through our testing.
- Audit testing identified a difference between the opening net liability included in the actuarial report and the financial statements due to audit adjustments processed in prior years not being known to the actuary. Going forward, the College should ensure adjustments are communicated to the actuary on a timely basis to ensure the roll-forward position is correct. The difference was not material and was absorbed into the audit adjustment to account for the 2023 Pension Increase Order.



## Service Concession Arrangements

In 2015 the College took possession of its new campus buildings, using the Scottish Futures Trust's Non-Profit Distributing (NPD) model. Under the NPD arrangement, the College makes monthly service charge "unitary charge" payments which include the capital element of the loan funding together with interest, facilities management and building lifecycle costs.

As at 31 July 2022 the present value of future lease payments was reported as £34.7 million. Given the material value of the NPD liability as well as the complexity of the associated accounting treatment we consider this as an area of higher inherent risk.

Our approach included:

- reviewing the College's NPD accounting and disclosures against the requirements of the SORP and FRS 102 and against the underlying contracts;
- auditing the NPD agreements and accounting model to consider the reasonableness of the NPD disclosure within the financial statements; and
- discussion with management against our recommendation made in our 2016/17 Annual Audit Report, which remained outstanding during previous audits. Specifically, we recommended management to review the current accounting model to consider the assumptions contained therein, whether they remained appropriate and in particular whether the model should incorporate contingent rent within the calculation. Management has advised that this will be progressed in 2022/23 at the beginning of the new audit appointment.

### *Recommendation 1:*

Management should progress the review of the NPD model at the earliest opportunity in 2022/23.

*Recommendation 1*

### Our conclusions

- We are satisfied that the NPD liability and associated accounting treatment and disclosure is free from material misstatement for the year ended 31 July 2022.
- Our audit testing identified one disclosure misstatement in relation to the outstanding liability which has not been adjusted by management. As shown in Appendix D, the misstatement was not material.
- We note that our previous recommendation around reviewing the NPD model will be actioned by management in 2022/23 with the appointment of a new external auditor.

# Going concern

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained.

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

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the College and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to February 2024.

After completing its going concern assessment the College has concluded that while the scale of the financial challenge is significant, there are no material uncertainties around its going concern status.

We have outlined our consideration of the College's financial position going forward in the wider scope - Financial Sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- the completeness of factors considered in management's going concern assessment;
- the integrity and robustness of the underlying cash flow forecasts supporting future financial projections, in particular if the College projects to require financial support during the going concern assessment period; and
- the completeness of disclosures in the financial statements in relation to going concern and future financial performance in line with the requirements of the SFC 2021/22 Accounts Direction;

## Our conclusions

- We are satisfied that it remains appropriate for the College financial statements to be prepared on a going concern basis, in particular recognising the SFC and UHI's confirmation they would provide support in cash flow management should it be required through the going concern period.



## Wider Scope dimensions

### Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the College's arrangements for the two wider scope audit dimensions for small public sector bodies in Scotland. These are financial sustainability and governance and transparency. We outlined in our Annual Audit Plan that given the lasting impact of Covid-19 and associated risks around robust financial management, we would consider this dimension as part of our work in 2021/22.

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the College's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

- **Financial Sustainability:** Considers the medium and longer term outlook to determine if planning is effective to support service delivery.
- **Financial Management:** Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and Transparency:** Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.

# Financial Sustainability

Our overall assessment:  
Red



The wider financial landscape in which the College operates was already challenging, and the Covid-19 pandemic alongside the impact of the economic and geopolitical environments, including supply chain challenges and inflationary pressures, has resulted in further significant financial pressures. This creates a risk that the College will not be able to develop viable and sustainable financial plans.

The College submitted a financial forecast return in September 2022 to the Scottish Funding Council which outlines a cumulative underlying operating deficit position over the five years of £0.34 million. A second financial forecast return has been prepared by management using more pessimistic assumptions around pay and cost inflation, under which the cumulative deficit position increases to £8.9 million.

Management continue to explore options to deliver savings and grow income, however the scale of the challenge is significant and although the College has tended to outperform budget in prior years, this is not guaranteed.

## The context for financial sustainability in the College sector

The Scottish Government's 'Resource Spending Review' was published on 31 May 2022 and sets out the high level parameters for resource spend within future Scottish budgets up to 2026-27. The plan is focused on how the Scottish Government will allocate funding to achieve their strategic outcomes and priorities:

- Tackling child poverty;
- Addressing the climate crisis;
- Securing a stronger, fairer, greener economy; and
- Delivering excellent public services.

The review sets out that there will be no increases to the Scottish Funding Council budget, who in turn provide funding to the College sector. While the spending review is not a finalised budget, it provides the sector with an indication of likely funding allocations. Colleges Scotland estimates that Colleges are facing a real terms budget cut of £51.9 million in 2022/23.

The Scottish Parliament's Finance and Public Administration Committee, as part of its pre-budget setting scrutiny for 2023/24, launched a call for views on Scotland's public finances and the impact of both the cost of living crisis and public service reform in August 2022. This consultation has included seeking views on the priorities within the Resource Spending Review and how the Scottish Government should respond to inflationary pressures and the cost of living crisis within its 2023/24 budget.

The Scottish Funding Council published their report, 'Financial Sustainability of Colleges and Universities in Scotland' in March 2022.

The Covid-19 pandemic led to increased reliance on SFC income across the College sector, which will create further challenges if flat cash settlements occur in future financial years.

This paper set out that the sector had managed the impact of Covid-19 more positively than originally anticipated however the longer term financial sustainability remains challenging. The sector collectively was expected to deliver a combined surplus of £16.7 million for 2020/21 with two colleges expected to report adjusted operating deficits.

However, colleges remain heavily dependent on SFC grant funding with this income accounting for 79% of total income at a sector level in 2020/21. This illustrates the reliance that colleges have on funding which is expected to reduce in real terms moving forward. For colleges to remain financially sustainable, growth in other income as well as reductions in their cost base will be required. The continued impact of Covid-19 has resulted in challenges for colleges to achieve their student recruitment and retention targets as well as other income targets.

The Scottish Government and SFC are starting to take forward the recommendations within the SFC review on the provision and sustainability of further and higher education and research across Scotland, published in June 2021. The current financial outlook stresses the importance of the recommendations within this review being implemented as early as possible. A further update is expected in 2023 when the Scottish Government is due to set out the future role of the college and university sectors.

The turbulent financial environment creates significant challenges for colleges to be able to prepare robust financial plans.

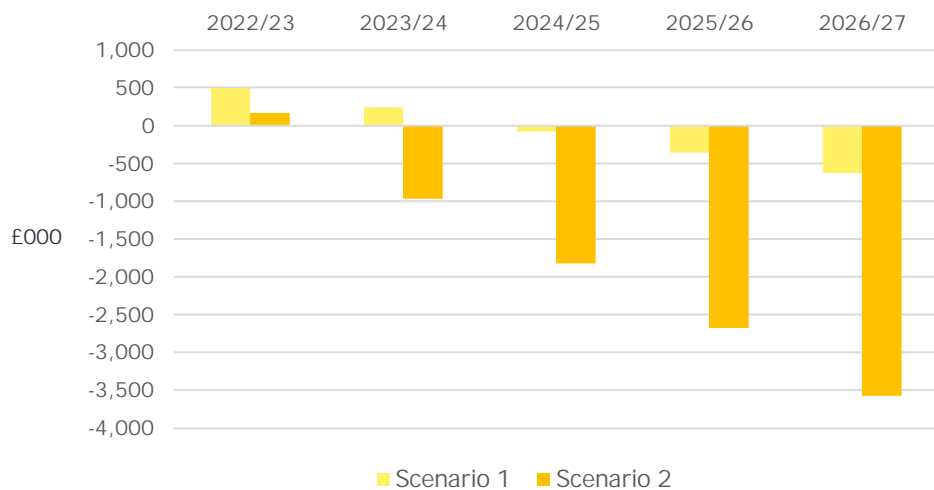
#### Medium term financial forecasting

The College has prepared a five-year financial forecast for the period 2022 to 2027 and submitted this to the SFC in the form of the template Financial Forecast Return ('FFR'). Two scenarios for the FFR were presented to the College's Finance and General Purposes Committee:

- Scenario 1, based on SFC assumptions.
- Scenario 2, based on assumptions agreed by the colleges Directors of Finance Group.

Each scenario presents a challenging outlook for the College as Exhibit 1 demonstrates. The SFC encourages colleges to submit a breakeven FFR, however the College submitted what they consider to be the most realistic scenario to the SFC with a view to highlighting the significance of the deficits being faced in the long term.

Exhibit 1: The College's FFR scenarios highlight the significant financial challenges facing the College in future periods and the significant savings and income growth required to deliver a balanced budget.



Source: Inverness College Financial Forecast Return, October 2022

The College's forecasts recognise significant uncertainty in the current environment, particularly in relation to pay awards and inflation. Under more pessimistic assumptions around staff costs, the deficits would significantly increase to a cumulative deficit of £8.9 million under scenario 2.

Following several years of budget pressures, the College's ability to achieve savings both easily and quickly is challenging. The College continues to consider areas where savings or income growth could be achieved, some of which may require more fundamental change:

- Review of the curriculum offering and delivery model;
- Increasing digital delivery and remote learning;
- Cost rationalisation through continuous improvement programmes; and
- Reviewing estates utilisation, including consideration of energy use.

### Going concern cash flow forecasting

We outlined our work in respect of going concern earlier in this report. While the College has prepared its financial statements on a going concern basis as required by the FReM for a public body, it is required to consider its ability to meet liabilities as they fall due over the going concern assessment period to February 2024, being at least 12 months from the approval date for the financial statements.

As part of its financial forecasting arrangements the College has forecast its cash flow during this period, including testing a number of sensitivities which may be impacted by the current uncertainty around the 2022/23 and 2023/24 academic years as a result of pay and other inflationary pressures. As part of the FFR submission, the College has projected cashflows to 31 July 2023 with a closing balance of £6.8 million, and £5.4 million to 31 July 2024.

Despite facing significant challenges, the College remains in a healthy cash position. Even under the College's severe downside cash flow forecasts, it will maintain a cash surplus position as at the end of the 2023/24 financial year. However, the longer term outlook is more challenging, with the FFR submission prepared under local assumptions showing the College falling into a cash deficit of £4.8 million by 2026/27.

The College is continuing to engage with UHI and the SFC regarding their financial outlook and seek financial support as required. The SFC have issued a letter of support to provide short-term liquidity support, should the College require this during the period of 12 months from the approval of the financial statements.

# Financial Management

Our overall  
assessment:  
Green



The College reported an adjusted operating surplus of £0.43 million (2020/21: £1.85 million surplus). We were satisfied that the College's financial monitoring and reporting was clear and consistent throughout the year.

The College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board, Finance and General Purposes, and Audit Committees throughout the year. We are satisfied that the core financial management arrangements were not materially impacted as a result of Covid-19 or other external pressures, with clear financial reporting continuing throughout the year.

## Financial performance and monitoring

The College reported a deficit of £1.47 million for the year (2020/21: £0.14 million). Following an actuarial gain of £16.8 million and a revaluation gain of £6 million, the College reported total comprehensive income of £22.8 million (2020/21: £3.7 million). The College had an operating surplus of £0.43 million after removal of non-cash accounting adjustments relating to pension and capital accounting.

2021/22 was the second full financial year that the College had fully operated in the context of Covid-19 which continues to have an impact on student recruitment, retention and satisfaction. In addition, the ongoing economic and geopolitical uncertainty, including the cost of living crisis, has led to further financial challenges for the College.

The College delivered 28,697 FE credits in 2021/22 against a target of 30,677, resulting in potential clawback of funding from the SFC. An accrual of £0.57 million for this has been made in the financial statements, with a final decision expected from the SFC in early 2023. The College delivered 1,363 HE FTEs ('Full Time Equivalents') against a target of 1,556, however, this was already reflected within the funding allocations drawn down throughout the year and therefore no accrual was required in the financial statements.

In line with previous years, the College's financial performance was monitored throughout the year by management and the Board, Finance and General Purposes, and Audit committees. There is evidence of financial monitoring, reporting and planning throughout the financial year, up to the approval of the 2022/23 budget.

Throughout 2021/22 management reported budget pressures and variances through its management accounting. These were significant in the year, however we were satisfied these related to the impact of Covid-19 and other pay and non-pay inflation pressures on College operations and additional funding awarded late in the financial year.



## Systems of internal control

### *Recommendation 2:*

The College's Financial Regulations are overdue for review and this should now be progressed to ensure they reflect the most up to date practices in place.

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

We undertook an initial assessment of the financial control environment as part of our planning work in May 2022, and updated our understanding as part of the year-end audit. Our work did not identify any significant weaknesses in the College's systems of internal control. In particular, we have not identified any significant changes to the design and implementation of controls as a result of the impact of hybrid working arrangements which are now well embedded.

However, we noted that the College's Financial Regulations were last updated in December 2018 and therefore are overdue for review. The annual review process in place has been impacted by pressures caused by Covid-19, but we recommend a refresh of the regulations is now progressed to reflect the most up to date practices in place post Covid-19, and include the shared service structure with North Highland College.

*Recommendation 2*

### *Recommendation 3:*

Governance arrangements around the NFI exercise should be formalised in advance of the 2022/23 process. This should include completion of the self-appraisal checklist issued by Audit Scotland.

## National Fraud Initiative (NFI)

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

The College received matches for investigation in January 2021 and results of the investigation were recorded on the NFI system. We noted progress continued to be made by the College and 100% of identified matches had been followed up and closed off in the system. No instances of fraud or error were identified through the exercise.

Audit Scotland recommend completion of the self-appraisal checklist in advance of undertaking NFI work, with oversight from the audit committee. This was not completed for the 2020/21 exercise and only a verbal update on progress was given to committee. The College should formalise reporting arrangements on NFI matches and ensure the self-appraisal checklist is completed in advance of the 2022/23 exercise.

*Recommendation 3*

# Governance and Transparency

Our overall assessment: Green



The key features of good governance remain in place at the College and have been operating effectively throughout the year. A hybrid meeting structure for the Board was implemented after seeking the views of members and a Board self-evaluation was conducted during the year.

All planned internal audit assignments were completed in 2021/22 with no findings requiring urgent attention from management. Internal audit concluded that adequate and effective governance arrangements were in place during the year.

Good progress was made in actioning recommendations stemming from the 2021 External Effectiveness Review. However, although trackers are subject to periodic review, limited progress was made in actioning recommendations from internal audit. As at October 2022, only 27% of recommendations had been fully implemented, in part because management removed 12 recommendations from the tracker as they were not deemed to be high priority for the College. The Board should ensure remaining actions are progressed in line with their agreed timescales.

## Annual Governance Statement

The College has demonstrated through the year that it has the key requirements for good governance. The key aspects of governance arrangements require to be disclosed in the Annual Governance Statement within the financial statements. We reviewed the governance statement against the requirements outlined in the SFC's 2021/22 Accounts Direction and our understanding of the College up to 31 July 2022.

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

- Ensuring that the College has met all requirements of the SFC's 2021/22 Accounts Direction;
- Ensuring that the content of the statement is consistent with our understanding of the College's governance arrangements and any issues identified during the year; and
- Ensuring that the College has performed a self-assessment of compliance with the Code of Good Governance for Scotland's Colleges and that this assessment is reflected in the statement.

We were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the Code of Good Governance for Scotland's Colleges.

## Governance Arrangements

Like all other public bodies in Scotland, the College moved to revised governance arrangements at the beginning of the UK lockdown period. From March 2020, all Board and committee meetings continued as scheduled via remote working arrangements, and all relevant business continued to be considered as required. As restrictions started to ease, the College trialled a hybrid model for meetings in the latter half of 2021/22. Based on the results, the College moved to operate a hybrid model with Board meetings taking place on a hybrid basis and committee meetings continuing to be held remotely.

### Progress against audit recommendations

*Recommendation 4:*  
Limited progress has been made in actioning internal audit recommendations due to a combination of factors. Management should ensure these are an area of renewed focus in 2022/23.

Action trackers are in place to monitor recommendations made by internal and external audit, both of which were updated in October 2022. Two recommendations from the 2020/21 external audit annual report were outstanding as at August 2022, relating to the College's external effectiveness review and the review of the NPD model. We note below the progress made against the external effectiveness review, and we recognise that management plan to progress the review of its service concession arrangements with the newly appointed external auditor in 2022/23.

The College regularly reviews the action tracker capturing internal audit recommendations, the most recent review being undertaken in October 2022. As part of this review, 12 recommendations were deemed to be low risk and were removed in order to focus on higher priority areas. As a result, just 27% of recommendations were fully implemented during 2021/22. An area of good progress has centred around the College's succession planning arrangements which have now been formalised into a Talent Management Strategy. However, management should ensure that a renewed focus is placed on the remaining recommendations during 2022/23.

### *Recommendation 4*

### External effectiveness review


All colleges are required to undertake an external effectiveness review (EER) at least every 3 years, in accordance with the Code of Good Governance for Scotland's Colleges. The College's external effectiveness review took place throughout March and April 2021 with a number of positive aspects identified. An action plan was created which is now well progressed. A self-evaluation was completed by the Board in April 2022, the results of which were positive with no obvious concerns from members over the operation or strategic direction of the Board.

## Internal audit

Internal audit's opinion for the year was based on its agreed audit plan, as approved by the Audit Committee. Internal audit services are provided by BDO and all planned assignments were completed during the year. For 2021/22, the internal auditor's opinion notes that, 'The internal audit service provides Inverness College with reasonable assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2021-22. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weakness in the framework of control'.

## Enquiries of those charged with governance

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



# 4 Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit Committee

D – Summary of errors identified during the audit

E – Action plan, including follow up on prior year recommendations

F – Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

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

### Financial Statements and related reports

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

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

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

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

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

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

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

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

### Best Value

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

# Appendix B: Independence and audit quality

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

## Matters that we are required to communicate

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

There are no relationships from 1 August 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We are not aware of any inconsistencies between the College's policy for the supply of non-audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

## Audit Fees

	2021/22	2020/21
Component of fee:		
Total agreed auditor remuneration	£17,210	£16,850
Additional audit procedures (see below)	2,000	£2,000
Audit Scotland fixed charges:		
Pooled costs	£960	£1,090
Audit support costs	£860	£710
Total fee	£21,030	£20,650

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

Through the 2021/22 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the College. These areas related to the additional procedures in respect of financial sustainability and going concern. For these areas we have agreed the fee noted in the table above with management and Audit Scotland, based on the additional time required at the contracted Audit Scotland rates.

Matters that we are required to communicate

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

The EY 2022 UK Transparency Report can be accessed on our website at [EY UK 2022 Transparency Report | EY UK](#). This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our Audit Quality Report.

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

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

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

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

Audit Quality Framework / Annual Audit Quality Report

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

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

The most recent audit quality report which covers our work at the College since appointment can be found at: [Quality of public audit in Scotland annual report 2021/22 \(audit-scotland.gov.uk\)](#)



# Appendix C: Required communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> <li>• Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	<p>Annual Audit Report</p>

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

# Appendix D: Summary of adjusted and unadjusted errors identified during the audit

This appendix sets out the significant adjustments processed as part of finalisation of the financial statements. There were two unadjusted audit differences identified above our reporting threshold which are set out on the following page.

Adjusted differences				
No.	Description	Income and Expenditure Impact / £000's	Other Comprehensive Income	Balance Sheet Impact / £000's
1	Revaluation of land and buildings		Cr Revaluation Reserve £5,957,857	Dr Fixed Assets £5,957,857
2	Bad debt provision for SITS balances	Dr Expenditure £60,873		Cr Current Assets £60,873
3	Increase to SFC funding clawback provision	Dr Income £124,999		Cr Accruals £124,999
4	Adjustment relating to pension scheme asset valuation at 31 July 2022		Dr Other Comprehensive Income £1,918,000	Cr Pension Liability £1,918,000
Unadjusted differences				
1	Overstatement in the DRC valuation of the main campus building		Dr Revaluation Reserve £135,470	Cr Fixed Assets £135,470
Unadjusted differences (financial statements disclosures)				
No.	Description	Impact		
1	Understatement of outstanding service concession arrangements charge	Outstanding service concession charge is understated by £77,448.		

# Appendix E: Action Plan, including follow up on prior year recommendations

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

Classification of recommendations			
	Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	Findings / risk / grading	Recommendation / 2022 update	Management response / Implementation timeframe
2021/22 Recommendations			
1	<p>We discussed the recommendation made in our 2016/17 Annual Audit Report with management relating to the College's model for accounting for service concession arrangements, which remained outstanding during previous audits. Management should progress the review of the NPD model at the earliest opportunity in 2022/23.</p> <p style="text-align: right;">Grade 1</p>	<p>We recommended management review the current accounting model to consider the assumptions contained therein, whether they remained appropriate and in particular whether the model should incorporate contingent rent within the calculation. Management have advised that this will be progressed in 2022/23 at the beginning of the new audit appointment.</p>	<p>Management Response:</p> <p>Aim to discuss with new appointed auditors and what their view of this is. To be discussed in audit planning. Sympathetic to address but will need external professional help.</p> <p>Responsible Officer: Vice Principal, Finance and Audit</p> <p>Implementation date: By mid-August 2023</p>
2	<p>The College's Financial Regulations are overdue for review and this should now be progressed to ensure they reflect the most up to date practices in place.</p> <p style="text-align: right;">Grade 2</p>	<p>The College's Financial Regulations were last updated in December 2018 and therefore are overdue for review. The annual review process in place has been impacted by pressures caused by Covid-19, but we recommend a refresh of the regulations is now progressed to reflect the most up to date practices in place, including the shared service structure.</p>	<p>Management Response:</p> <p>Aiming to combine Financial Regulations update in association with new UHI merged college. This has been commenced. Aim to complete by 31 July 23</p> <p>Responsible Officer: Vice Principal, Finance and Audit</p> <p>Implementation date: 31 July 2023</p>

No.	Findings / risk / grading	Recommendation / 2022 update	Management response / Implementation timeframe /
3	<p>Governance arrangements around the NFI exercise should be formalised in advance of the 2022/23 exercise. This should include completion of the self-appraisal checklist issued by Audit Scotland.</p> <p style="text-align: right;">Grade 2</p>	<p>Audit Scotland recommend completion of the self-appraisal checklist in advance of undertaking NFI work, with oversight from the audit committee. This was not completed for the 2020/21 exercise and only a verbal update on progress was given to committee. The College should formalise reporting arrangements on NFI matches and ensure the self-appraisal checklist is completed in advance of the 2022/23 exercise.</p>	<p>Management Response:</p> <p>Self Appraisal checklist to be reviewed and completed in line with Audit Scotland guidance.</p> <p>Responsible Officer: Vice Principal, Finance and Audit</p> <p>Implementation date: 30 April 2023</p>
4	<p>Limited progress has been made in actioning internal audit recommendations due to a combination of various factors. Management should ensure these are an area of renewed focus in 2022/23.</p> <p style="text-align: right;">Grade 2</p>	<p>The College regularly reviews the action tracker capturing internal audit recommendations, the most recent review being undertaken in October 2022. As part of this review, twelve recommendations were deemed to be low risk and removed in order to focus on higher priority areas. As a result, only 27% of recommendations were fully implemented during 2021/22. Management should ensure that a renewed focus is placed on the remaining recommendations during 2022/23.</p>	<p>Management Response:</p> <p>This was discussed at Audit Committee and work is ongoing to align Internal Auditor Follow-up with Audit Committee decisions. In progress and due to finalise revised actions by 31 March 23.</p> <p>Responsible Officer: Vice Principal, Finance and Audit</p> <p>Implementation date: 31 March 2023</p>

## Follow-up of prior year recommendations

No.	Findings / risk / grading	Recommendation / 2022 update	Management response / Implementation timeframe /
5	<p>The College should continue to regularly monitor its forecast position, including delivery of its required savings, and its cash position and future forecast. The impact that staff cost reductions and other savings are having on operational and strategic delivery should be subject to ongoing review in conjunction with UHI, as RSB, and SFC.</p> <p style="text-align: right;">Grade 1</p>	<p>2021/22 Update:</p> <p>We have outlined our consideration around the College's future financial position and planning in respect of this in more detail in the financial sustainability section of our wider scope reporting. This will continue to be an area of focus for the College going forward.</p>	<p>Management Response:</p> <p>This work is on-going with on-going financial monitoring; FFR production; Curriculum Planning and course numbers. This is embedded and it is felt that this recommendation is being fulfilled and can be taken off.</p>
6	<p>The College has noted that due to Covid-19 it has not been able to undertake an externally facilitated review in 2020, and planned to address this going forward in early 2021. This has been accordingly disclosed as an area of non-compliance with the Code of Good Governance in the Governance Statement.</p> <p style="text-align: right;">Grade 2</p>	<p>2021/22 Update:</p> <p>The external effectiveness review report was published in January 2021, resulting in a detailed action plan being formulated by the College. This is now very well progressed and there are no remaining recommendations stemming from the report which require urgent management action.</p>	<p>Action complete</p>

# Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2021/22 audit cycle.

	Audit Activity	Deliverable	Timing
MAR	<ul style="list-style-type: none"> <li>Walkthrough Visit</li> </ul>	Completion of internal documentation	May 2022
APR			
MAY	<ul style="list-style-type: none"> <li>Audit planning and setting scope and strategy for the 2021/22 audit</li> </ul>	Annual Audit Plan	May 2022
OCT	<ul style="list-style-type: none"> <li>Year-end substantive audit fieldwork on unaudited financial statements</li> </ul>	Audited Financial Statements	November / December 2022
NOV	<ul style="list-style-type: none"> <li>Conclude on results of audit procedures</li> </ul>	Issue Annual Audit Report	January 2023
DEC			
FEB	<ul style="list-style-type: none"> <li>Issue opinion on the College's financial statements</li> </ul>	Submit Audit Scotland minimum dataset request	February 2023

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