



# Perth College

**Annual Audit Report to the  
members of the Board of  
Management and the Auditor  
General for Scotland - year ended  
31 July 2022**

**15 December 2022**



**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 Perth College (the College) for financial years 2016/17 to 2021/22. 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

## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

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

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We have issued an unqualified audit opinion on the Group and 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 Group and College's financial statements for the year ended 31 July 2022. Five audit adjustments were required to be made and there was one unadjusted differences that we were required to communicate. The draft financial statements and supporting working papers were provided in line with the agreed audit timetable, however some narrative sections were provided late. The financial statements and working papers were of a reasonable standard. Improvements have been made to the visual presentation of the statements, however further improvements could be made particularly in respect of the completeness of information included within the initial draft statements, particularly in respect of non-financial areas.

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 Government Financial Reporting Manual ('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. The College has concluded that there are no material uncertainties around its going concern status, however it has continued to include enhanced disclosures around its future financial position in the financial statements to reflect the impact of Covid-19 and inflationary pressures. The Air Service Training (Engineering) Ltd is materially complete with the subsidiary auditors giving consideration to a material uncertainty opinion in respect of going concern. We note work in this area is ongoing however we have assessed the implications for the Group audit opinion and concluded that it does not impact our assessment of the Group's ability to continue as a going concern.

## Wider Scope

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

### Financial Sustainability



The financial environment 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, has resulted in further, significant financial pressures, and 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 October 2022 to the Scottish Funding Council. Applying assumptions which management believe to be most realistic, the FFR outlines a cumulative underlying operating deficit position over the five years of £17.2 million.

Management continue to explore options to deliver savings and grow income, however the scale of the challenge is significant and will require collaboration both within the College and other stakeholders including across the UHI partnership. Our assessment of red reflects the ongoing challenges facing colleges and the level of risk and uncertainty outside the College's control which could impact its ability to deliver savings and grow commercial income.

### Financial Management



The College reported an adjusted operating surplus of £0.27 million, representing a decrease of £0.7 million compared to 2020/21. 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 and Finance and Resources Committee 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. Since 2019/20, we have highlighted that there are opportunities to improve financial controls and capacity within the finance team with the recent double salary payment demonstrating the ongoing need for improvement in financial management capacity and capability. Following this incident, no changes have been made to improve the finance team capacity which poses a significant risk to the College of further control weaknesses being exposed. This should be addressed as a matter of urgency by the College.

### 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 was implemented, after seeking the views of members.

The College's Annual Governance Statement continues to disclose weaknesses in internal control, although we continue to note progress against the Board's improvement plan with 94% of actions now being either complete or partially complete however the pace of actions being closed down has slowed.

We note that the Remuneration Committee reviewed the Principal's salary in year with an increase being awarded, however there was no clear evidence of consideration of the public sector policy when agreeing the revised remuneration.

### Value for Money



2021/22 represented the final year of the College's current Strategic Plan and there has been significant focus from management and board members on the development of the new strategy during the year. Performance reporting has continued through use of the balanced scorecard and we note that performance has improved across 55% of the key performance indicators. From 2022/23, a new Enterprise Risk Management framework is being implemented and is aligned to delivery of the new strategic plan.

Public performance reporting is a key tool to enable stakeholders to assess the performance of the College. The College has not published a performance report on their website for the last 2 consecutive years. Both reports should be published as soon as possible and moving forward these should be made available on the website in a timely manner.





# 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 Perth 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 management 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 and Risk 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 £0.56 million. We considered whether any change to our materiality was required, including due to the Group's 2021/22 financial performance. As a result of increased expenditure in year, our materiality for the Group was revised to £0.59 million.

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 £0.56 million to £0.59 million.

Overall Materiality	Tolerable Error	Nominal amount
<b>£590,000</b>	<b>£295,000</b>	£29,500
2% of the Group'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 Group and 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 Group and 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 requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Governance and transparency; and
- ▶ Value for money.

Our findings are summarised in Section 3 of this report.



# Financial Statements audit

## Introduction

The financial statements provide the Group and 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. However, some narrative sections of the financial statements were not fully complete. Management should ensure that a clear timetable is in place for production of a complete set of financial statements and that this is circulated to and adhered to by staff outside the finance function who input to the financial statements.

The draft financial statements and supporting working papers were submitted for audit in line with planned timescales however some narrative sections had not been fully updated.



## **Audit Outcomes**

We identified 5 adjusted audit differences arising from the audit which have been reflected within the financial statements and 1 unadjusted difference. In addition, a late adjustment was made to the financial statements by management due to the third party valuation of the College estate being delivered late. The adjusted differences related primarily to balance sheet classifications, unfunded liability and prepayment/accruals errors. Our overall audit opinion is summarised on the following page.

## **Group financial statements**

The College prepares group financial statements, consolidating the results of the College and its subsidiary undertaking, Air Service Training (Engineering) Limited.

We are satisfied that the consolidated financial statements have been prepared appropriately with inter-company transactions eliminated in line with accounting requirements.

Our communications with the component auditors note that the audit of the subsidiary financial statements is materially complete with the exception of going concern. We have received responses to our group audit instructions. With the exception of the going concern matter above, no significant issues have been reported which impact the group.

# 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 Group and 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 Group and 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 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 testing 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 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 has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
- ▶ We identified 3 audit differences in respect of our detailed testing of income, expenditure and associated balance sheet accounts as set out in Appendix D.
- ▶ 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 the 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 on 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 disclosure and we encountered no significant difficulties in the audit.



## 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 areas are summarised below.

## **Valuation of pension assets and liabilities**

The College participates in two pension schemes: the Local Government Pension Scheme (Tayside 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 asset totalling £6 million (2020/21: £6.8 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 £1.72 million was made, reducing the net asset to £4.28 million. The pension asset has not been recognised within the College's financial statements in line with the College's accounting policy. This is on the basis that the asset is currently not anticipated to be recoverable either through refunds or reduced contributions.

The present value of the unfunded obligation in relation to early retirements agreed in previous years was £0.73 million (2020/21: £0.86 million).

Accounting for both schemes 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 Perth 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 Funds 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 have been correctly disclosed in the notes to the financial statements.
- ▶ One adjustment was made in respect in respect of the College's unfunded liability totalling £0.73 million. Following adjustment, we are satisfied the unfunded liability has been calculated appropriately.

## Valuation of Property, Plant and Equipment

The College's property, plant and equipment (PPE) portfolio totals over £43.8 million of assets (2021: £39.3 million). 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 regular desktop valuations in interim years.

For 2021/22, the College obtained a desktop valuation from their external valuer for land and buildings. The Group's PPE totals £43.8 million, an increase of £3.2 million from 2020/21. This movement includes additions of £0.15 million, depreciation of £1.4 million, and a revaluation gain of £4.5 million.

Given the significance of the balance within the financial statements, the number of assumptions that are made in the valuation we assigned an inherent risk to the valuation of property, plant and equipment.

To address the inherent risk, our work focused on the following key areas:

- ▶ Considered 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.
- ▶ Sample tested key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Ensured that the interim valuation has been appropriately reflected within the financial statements.
- ▶ Completed procedures designed to address the requirements of the revised ISA 540, as outlined earlier.

### Our conclusions

- ▶ The valuation report for the College's estate was received late in the audit process. Our work in this area is therefore ongoing.
- ▶ One adjustment related to the College's valuation of assets in 2021/22 was made due to the late receipt of the valuation report from the College's valuer.
- ▶ We concluded that management has undertaken sufficient procedures in respect of valuation of the College estate.

# 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 December 2023.

After completing its going concern assessment in line with the information and support provided through earlier discussions in the audit process, the College has concluded that 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 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's 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.
- ▶ We note that the auditors for the College's wholly owned subsidiary, Air Service Training (Engineering) Limited may issue a material uncertainty opinion in respect of going concern however this work is ongoing. We assessed the implications for the Group opinion and are satisfied that this does not impact our conclusions.





# Wider Scope dimensions

## Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the College's arrangements for the four wider scope audit dimensions.

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.
- ▶ **Value for Money:** Considers whether value for money can be demonstrated in the use of resources and the focus on continuous improvement.

# Financial Sustainability

**Our overall  
assessment:  
Red**



The financial environment 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, has resulted in further, significant financial pressures, and 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 October 2022 to the Scottish Funding Council. Applying assumptions which management believe to be most realistic, the FFR outlines a cumulative underlying operating deficit position over the five years of £17.2 million. Management continue to explore options to deliver savings and grow income, however the scale of the challenge is significant and will require collaboration both within the College and other stakeholders including across the UHI partnership. Our assessment of red reflects the ongoing challenges facing colleges and the level of risk and uncertainty outside the College's control which could impact its ability to deliver savings and grow commercial income.

## **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 college's to be able to prepare robust financial plans.

### **Medium term financial forecasting**

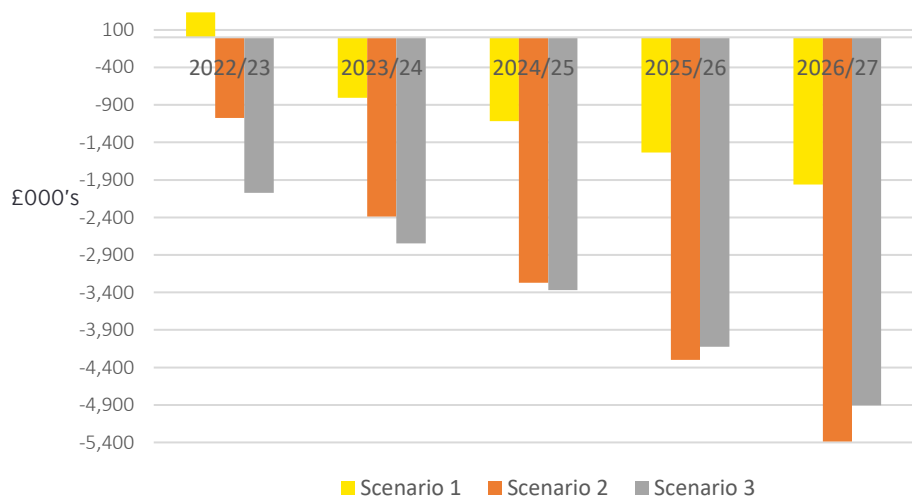
The College has prepared a five-year financial forecast for the period 2022 to 2027 and submitted this to the SFC in the form of the template Financial Forecast Return ('FFR'). The assumptions provided by the SFC were issued in August 2022 and therefore are not fully reflective of the current economic environment given the pace of change in areas such as inflation for both pay and non-pay costs. For example, the FFR assumes application of Scottish Government Public Sector Pay Policy with 2% pay awards assumed from 2023-24 onwards.

Three scenarios for the FFR were presented to the College's Board of Management in October 2022:

- ▶ Scenario 1, based on SFC assumptions.
- ▶ Scenario 2, based on assumptions agreed by the colleges Finance Directors' Group.
- ▶ Scenario 3, based on Perth College assumptions.

Each scenario presents a challenging outlook for the College as Exhibit 1 demonstrates. The cumulative underlying operating deficit across the 5-year period under worst case scenario (being scenario 3) is £17.215 million.

**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: Perth 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. 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. Two key reviews are currently being undertaken to support the College's financial sustainability:

- ▶ **UHI 2024:** Seven major initiatives have been initiated by the Executive Office of UHI. The current risks are not unique to UHI Perth and threaten the sector and therefore a collective approach across UHI is being progressed. The College are fully committed to and involved in these initiatives with a view to managing the risks posed to the College's financial sustainability.
- ▶ **Board of Management Review:** In addition to UHI 2024, the College's Board of Management will be carrying out a detailed review of the College so that actions can be taken, as required, to ensure the financial sustainability of the College.



### **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 December 2023, being 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 £3.9 million and £3.1 million to 31 July 2024.

While the College's FFR illustrates a strong cash position, this is based on Scenario 1 assumptions which are optimistic. Taking account of the significant risks to this position being achieved, the College will require a letter of support from SFC/UHI to confirm advances of funding will be made should they be required. On this basis, management has concluded that there is no plausible scenario where the College will require financial support to meet its liabilities during the going concern assessment period.

We note that the auditor's for the College's wholly owned subsidiary, AST Engineering Ltd may include a material uncertainty opinion in respect of going concern however work in this area is ongoing. Due to the College's central government classification, the College provided limited support to AST and only through their commercial income activity. Taking this into account, we do not believe that this presents a risk to the College's ability to continue as a going concern, however as explained earlier in our report, we have concluded that this does not impact our Group opinion.

# Financial Management

**Our overall  
assessment:  
Red**



The College reported an adjusted operating surplus of £0.27 million, representing a decrease of £0.7 million compared to 2020/21. 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 and Finance and Resources Committee 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.

Since 2019/20, we have highlighted that there are opportunities to improve financial controls and capacity within the finance team with the recent double salary payment demonstrating the importance of a strong control environment. Following this incident, no changes have been made to improve the finance team capacity which poses a significant risk to the College of further control weaknesses being exposed. This should be addressed as a matter of urgency by the College.

## **Financial performance and monitoring**

The College reported a deficit of £2.33 million for the year (2020/21: £1.6 million). Following an actuarial gain of £7.6 million and a revaluation gain of £4.5 million, the College reported total comprehensive income of £9.8million (2020/21: £5.7 million). The College had an operating surplus after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £0.27 million (2020/21: £0.99 million).

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. Particular challenges have been experienced in respect of higher education student numbers with 83% higher education undergraduate FTE's being achieved and 72% of its postgraduate FTE's being achieved. This resulted in a reduction of £0.87 million in income. The College was however able to improve upon the original budget position for 2021/22 by closely monitoring costs.

In line with previous years, the College's financial performance was monitored throughout the year by management and the Finance and Resources. There is evidence of financial monitoring, reporting and planning by the Board and Finance and Resources Committee through the financial year, up to the approval of the 2022/23 budget and Financial Forecast Return.

Throughout 2021/22 management reported budget pressures and variances through its management accounting. These were significant in the year, however we are 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

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 yearend 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.

### Double salary payment and finance capacity

As reported in our 2020/21 Annual Audit Report, in October 2021, the College and subsidiary AST (Engineering) Limited, made a double salary payment to their staff of approximately £0.867 million. The incident was promptly identified by the College and steps were taken to try and prevent the payment from being made however the bank were unable to stop the payment once initiated. An internal investigation was undertaken and a detailed report provided to the Joint Finance and Resources and Audit committee in November 2021. This included identified control improvements which management have now implemented such as segregation of BACs authorisation.

Throughout 2021/22, management updated the Audit Committee on progress in recovering the monies due with the latest report in October 2022 outlining that 99.8% of funds had been recovered.

We highlighted in our prior year report that the incident highlighted the importance of the College's review of key financial processes and controls to prevent further such incidents. We noted that the review of financial processes should support further improvements in this area however it is noted that this will create additional pressures on an already stretched finance team. During 2021/22, capacity within the team has not improved and recruitment challenges have been encountered. Without increased capacity, the likelihood of further significant control errors occurring is high and could lead to further reputational damage to the College.

While we do note some improvements in process and controls, we also continue to note areas for further improvement, including areas of inefficiency and errors within financial accounting. The changes and improvements required will only be delivered once appropriate skills and capacity are in place within the finance team.

Following the double salary payment in October 2021, the importance of a strong control environment was emphasised. Since this date, the finance team capacity has not improved and therefore, there remains limited capacity to make improvements to financial controls and processes.

### **National Fraud Initiative (NFI)**

NFI is a 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 and that the results of the investigation were recorded on the NFI system in line with the reporting timelines. We noted progress continued to be made by the College and that we had no matters to report.

# Governance and Transparency

**Our overall  
assessment:  
Amber**



The key features of good governance remain in place at the College and have been operating effectively throughout the year. A hybrid meeting structure was implemented, after seeking the views of members.

The College's Annual Governance Statement continues to disclose weaknesses in internal control, although we continue to note progress against the Board's improvement plan with 94% of actions now being either complete or partially complete however the pace of actions being closed down has slowed.

We note that the Remuneration Committee reviewed the Principal's salary in year with an increase being awarded however there was no clear evidence of consideration of the public sector policy when agreeing the revised remuneration.

## **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:

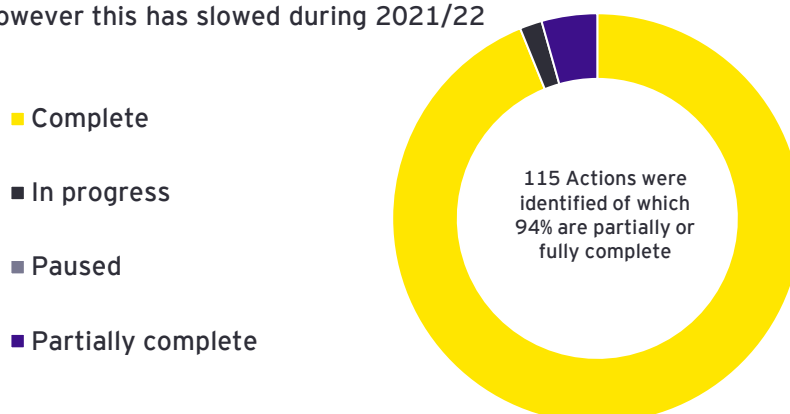
- ▶ Ensuring that the College has met all requirements of the SFC's 2021/22 Accounts Direction;
- ▶ Ensuring that the content of the statement is consistent with our understanding of the College's governance arrangements and any issues identified during the year; and
- ▶ Ensuring that the College has 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.

## Improvement Action Plan

The College responded to a number of external and internal audit reports in 2018/19 which identified a series of significant control weaknesses. As a result, the College developed a significant action plan to monitor progress both against audit recommendations and in further improvements identified by the Senior Management Team. As a result, 115 individual actions were identified. Progress against the action plan has been tracked by the College's planning and performance team and reported to the Audit committee. As Exhibit 1 notes, as at May 2022, 94% of actions are fully or partially complete.

Exhibit 2: Progress has been made against the Board's improvement plan however this has slowed during 2021/22



Source: Perth College Action Plan Monitoring Report, May 2022

Appendix E sets out our assessment of progress against the recommendations we made in prior year audits. We note good progress against each action and consider that this represents a significant achievement, particularly in light of the global pandemic and its impact on the sector more widely.

## Governance Arrangements

Like all other public bodies in Scotland, the College moved to revised governance arrangements at the beginning of the UK lockdown period. Since March 2020, all Board and committee meetings continued as scheduled via remote working arrangements, and all relevant business continued to be considered as required. During 2021/22, the College has moved to a hybrid meeting structure for Committees and Board of Management meetings which is intended to continue moving forward.



**Recommendation 1:** The College should ensure that appropriate consideration is given to public sector pay policy in line with the requirements of the financial memorandum when considering senior management remuneration.

## Principal Remuneration

During 2021/22, the College's remuneration committee commissioned a review of the Principal's remuneration. This was a desk-based benchmarking exercise of Principal salaries across the further education sector, taking account of staff numbers and income. Since the Principal's appointment in 2017, her salary had been uplifted in relation to cost of living increases. In May 2022, taking account of the findings of this exercise, the committee approved an increase to the Principal's salary of £8,500 or 7.71% to £120,000, from 1 September 2021. The review also proposed that the salary is reviewed on an annual basis moving forward. The financial memorandum between the College and both UHI and SFC states, 'the College must have regard to public sector pay policy set by the Scottish Ministers.' For 2021/22, public sector pay policy in Scotland limited increases for those earning £80,000 or more to £800. Our review of papers presented to the Remuneration Committee and committee minutes noted no evidence of consideration of public sector pay policy when the decision was made, however we have subsequently been informed that this was discussed and not minuted. The College should ensure that appropriate consideration is given to public sector pay policy in future when making senior management remuneration decisions and appropriate consultation occurs with SFC and UHI where this is not being followed.

## Internal audit

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit Committee and presented to the Audit Committee in December 2022. For 2021/22, the internal auditor's opinion notes that *'In our opinion, with the exception of the follow up issues described in paragraph 1.11, the College has adequate and effective arrangements for risk management, control, and governance. This opinion has been arrived at taking into consideration the work we have undertaken during 2021/22 and in previous years since our initial appointment.'*

The internal auditor highlighted specific concerns around the pace at which historic internal audit actions were being addressed with only eight of the 29 recommendations followed-up were assessed as 'fully implemented'.

# Value for Money

**Our overall assessment: Amber**



2021/22 represented the final year of the College's current Strategic Plan and there has been significant focus from management and board members on the development of the new strategy during the year. Performance reporting has continued through use of the balanced scorecard and we note that performance has improved across 55% of the key performance indicators. From 2022/23, a new Enterprise Risk Management framework is being implemented and is aligned to delivery of the new strategic plan.

Public performance reporting is a key tool to enable stakeholders to assess the performance of the College. The College has not published a performance report on their website for the last 2 consecutive years. Both reports should be published as soon as possible and moving forward these should be made available on the website in a timely manner.

## **Strategic Plan**

The College's Strategic Plan 2016-21 was published in June 2016 which set out four strategic objectives covering:

- ▶ Students and staff achieving their potential;
- ▶ Sustainability;
- ▶ Student activity measures; and
- ▶ Student Satisfaction.

During 2021/22, the College has developed a new Strategic Plan for the period 2022-2027. The development of the new strategy has involved collaboration with Board members, management and key stakeholders including staff. The revised strategy identified four pillars:

- ▶ College Growth and Ambition;
- ▶ Excellence in Learning and the Learner Experience;
- ▶ Partnerships and Collaboration; and
- ▶ Sustainability.

## **KPI reporting**

We reviewed the College's approach to public reporting and note that the College has a dedicated area of the website for Performance Indicators and External Review. We note that the College has published the results for 2019/20, with its commentary in July 2021 however no data has yet been published for 2020/21 or 2021/22. The College should ensure that performance information is shared in a timely manner on their website to enable stakeholders to assess the College's performance.

The College should aim to publish performance information on their website on a more timely manner. We also note that the new Strategic Plan is not yet available on the College website.

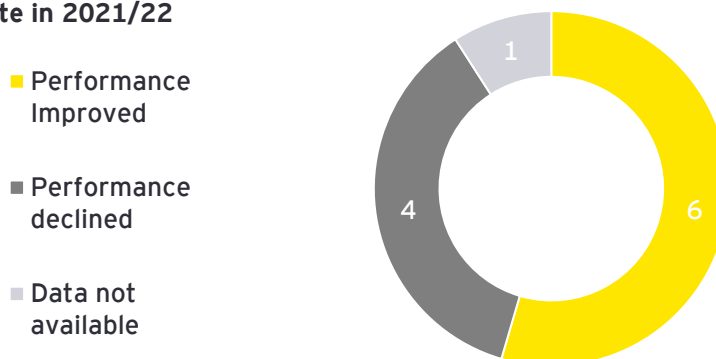
See Appendix E, prior year recommendation 2.

## Performance Reporting

The College continues to report performance through the balanced scorecard to the Board throughout the year.

Exhibit 3 highlights that the College has improved performance against 55% of key performance indicators with 36% declining against prior year. This is in line with performance at the same point in 2020. A particular achievement for the College has been improvement in relation to student satisfaction from both the NSS survey and SSES. However, key areas for improvement relate to staff turnover and absence which should be focus areas for management moving forward. In a trend observed across the sector, the College has experienced a decline of 17.7% in higher education student numbers compared to 2020/21 which has resulted in a reduction in funding of £0.87million. The College continues to explore options to improve higher education recruitment however the scale of the challenge is significant and will create further pressures on the College's financial resources.

### Exhibit 3: College improved performance in comparison to 2020/21 for the target set for 55% of the key performance indicators reported to date in 2021/22



Source: Perth College Financial Statements 2021-22, November 2022

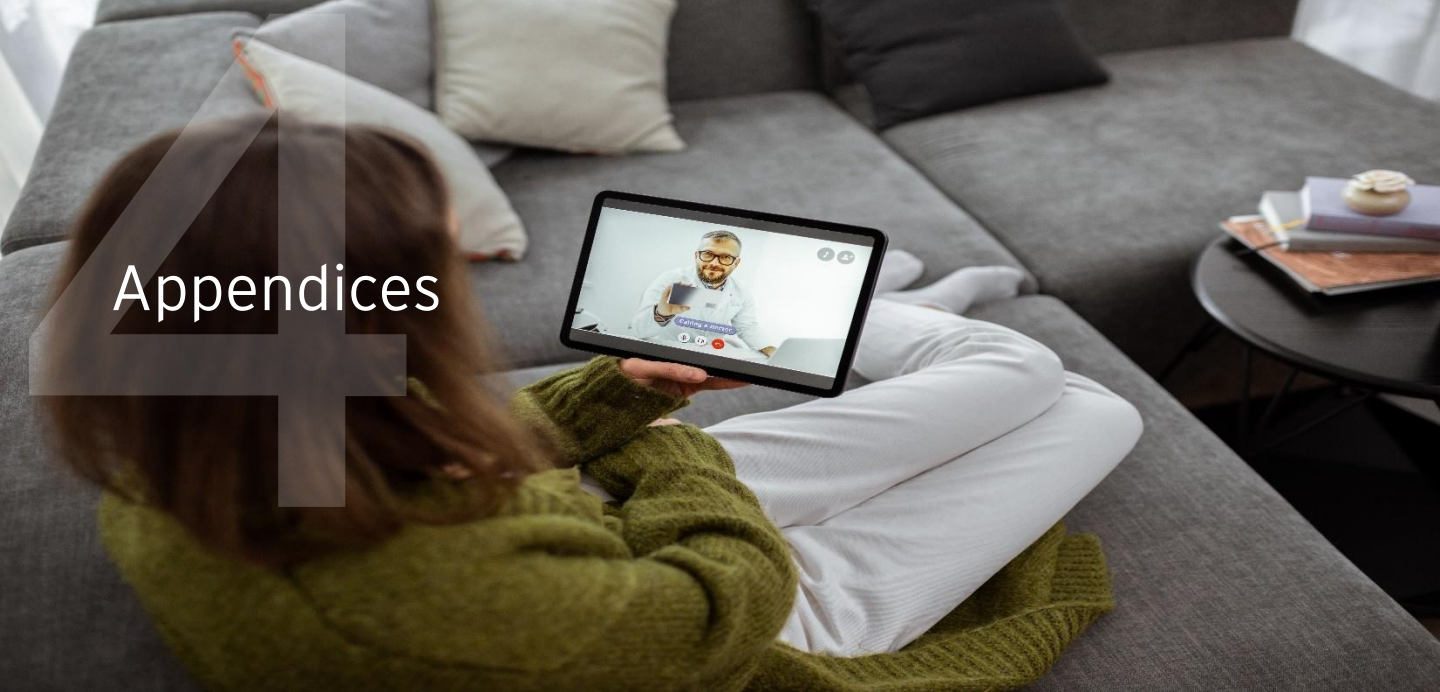
## Risk Management framework

During 2021/22, the College started transitioning away from the existing strategic risk management process to a framework of Enterprise Risk Management. The new process will merge the latest risk management frameworks outlined by the Committee of Sponsoring Organisations (COSO) and ISO30001. The new ERM framework will go live in 2022/23.

A number of training and strategy sessions have been held with Audit Committee and Board members to support implementation of the revised approach.

## Voluntary Severance Scheme

During 2021/22, 4 individuals left the College under voluntary severance agreements or redundancy with 1 other departure. We confirmed that the College had followed the procedures outlined within SFC's guidance for seeking approval for severance schemes and settlement agreements.



# 4 Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

D - Adjusted errors identified during the audit

E - Current and 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
<b>Component of fee:</b>		
Total agreed auditor remuneration	£19,290	£18,890
Additional audit procedures (see below)	£6,800	£8,400
Audit Scotland fixed charges:		
Pooled costs	£1,070	£1,220
Audit support costs	£960	£800
<b>Total fee</b>	<b>£28,120</b>	<b>£29,310</b>

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. The fee variation of £6,800 reflects our assumed additional work which will be required around the College's financial sustainability and financial management risks outlined in this report, the additional work from the inclusion of the financial management and value for money wider scope dimensions, the follow up work from outstanding areas of focus in prior years, and the requirement to reduce materiality on our audit due to our expectation of errors taking account of prior year audit differences. 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 (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB 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><b>Terms of engagement / Our responsibilities</b></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><b>Planning and audit approach</b></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><b>Significant findings from the audit</b></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><b>Going concern</b></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><b>Misstatements</b></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><b>Fraud</b></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><b>Related parties</b></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><b>Independence</b></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><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p><b>Subsequent events</b></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><b>Material inconsistencies</b></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><b>Consideration of laws and regulations</b></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>
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report</p>

# Appendix D: Adjusted errors identified during the audit

This appendix sets out the significant adjustments processed as part of finalisation of the financial statements. There were 5 adjusted differences and 1 unadjusted audit differences identified above our reporting threshold.

Adjusted differences				
N o.	Description	Income and Expenditure Impact / £000's	Other Comprehensive Income	Balance Sheet Impact / £000's
1	<i>Prepayments Adjustment</i>	Dr Expenditure 17		Dr Creditors 128 Cr Prepayments (145)
2	<i>Deferred Income adjustment</i>			Dr Deferred Income 134 Cr Debtors (134)
3	<i>Counselling Deferred Income</i>	Dr SFC Income 35		Cr Deferred Income (35)
4	<i>Job Evaluation reclassification</i>			Dr Accrued Income 1,728 Cr Accrued Expenditure (1,728)
5	<i>Recognition of unfunded pension liability</i>		Dr Actuarial gains and losses (731)	Cr Pension liability 731

Unadjusted differences				
N o.	Description	Income and Expenditure Impact / £000's	Other Comprehensive Income	Balance Sheet Impact / £000's
1	<i>PO Accrual</i>	Cr Expenditure (176)		Dr Accruals 176

# Appendix E: Action Plan, including an update on prior year recommendations

This action plan summarises specific recommendations included within the 2019/20 and 2020/21 Annual Audit Report and the latest status in respect of management's agreed actions as well as current year recommendations.

## 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 and recommendation	Management response / Implementation timeframe
1	<p>The College should ensure that appropriate consideration is given to public sector pay policy in line with the requirements of the financial memorandum when considering senior management remuneration.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p><b>Response:</b> We agree that we should clearly document our consideration of the public sector pay policy in line with requirements of the financial memorandum when considering senior management remuneration.</p> <p><b>Responsible officer:</b> Chair of Remuneration Committee</p> <p><b>Implementation date:</b> Immediately</p>

## Prior year recommendations follow up

No.	Findings and recommendation	Original Management response	Update on status
1	<p>The College should ensure that the Board secretary has appropriate support to ensure governance activities continue as normal during any periods of absence.</p> <p>Minutes and papers of relevant Board and Committee meetings should be published on the College website in a timely manner.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p><b>Response:</b></p> <p>We agree that the Board Secretary role should have a back-up to ensure governance activities continue as normal during any periods of absence. The College will identify and train a resource to provide back-up to the Board Secretary.</p> <p><b>Responsible officer:</b></p> <p>SMT</p> <p><b>Implementation date:</b></p> <p>August 2022</p>	<p>Improvements have been made in relation to the timeliness of publication of Board and Committee meeting minutes and papers on the College website however we note that the website is not fully up-to-date and therefore further improvements could be made to improve transparency.</p> <p><b>Our assessment:</b> <b>Ongoing</b></p>

No.	Findings and recommendation	Original Management response	Update on status
2	<p>The College should ensure that the annual performance report is published on the College website on a timely manner to ensure key stakeholders have access to performance information.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p><b>Response:</b></p> <p>We agree that the annual performance report must be published on the College website in a timely manner. The College will develop a checklist of all documents that must be published with relevant deadlines and ensure that the checklist is completed each month. This checklist will also be reviewed at each Audit Committee meeting. The checklist will be in place from the May/June 2022 Audit Committee meeting.</p> <p><b>Responsible officer:</b></p> <p>SMT</p> <p><b>Implementation date:</b></p> <p>June 2022</p>	<p>We note that the College website continues to only show the 2019/20 performance report for key performance indicators. The College should ensure both the 2020/21 and 2021/22 reports are published as soon as possible. Moving forward the reports should be published in a more timely manner.</p> <p><b>Our assessment: Incomplete</b></p>
3	<p>We consider that the Finance Team overall has had insufficient knowledge and experience, particularly in financial accounting, since December 2018.</p> <p>We also note that there were a number of historical issues with financial systems and approaches that College appointments within Finance were unable to address.</p> <p>The College must review the capacity and capability within the finance team to ensure that skills gaps are addressed.</p> <p>The Board needs to urgently ensure that there are appropriate arrangements established to provide strategic financial leadership.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The structure and resourcing of the Finance Team has been an ongoing focus of SMT with additional resources being invested during 2018/19 provided to increase the capacity and broaden the experience in the department. All positions are now filled permanently with the exception of the Interim Head of Finance who was appointed on a fixed term contract to May 2020, pending a revised structure.</p> <p><b>Actions</b></p> <p>Structure review of Finance: <b>Complete</b></p> <p>SMT recommendation for the appointment of a Director of Finance considered by the Remuneration Committee: <b>Complete and approved</b></p> <p>Implement a CPD plan across the Finance Team: <b>December 2020</b></p> <p><b>Responsible officer: Principal/ HoF</b> <b>Implementation date: December 2020</b></p>	<p>The finance team continues to face resourcing challenges and has experienced recruitment challenges. At present, the team carries key person dependency risks and is unable to deliver the improvements to processes and controls in a timely manner due to the team's capacity.</p> <p><b>Our assessment: Ongoing</b></p>



No.	Findings and recommendation	Original Management response	Update on status
4	<p>Our work has identified ongoing weaknesses in internal controls, including:</p> <ul style="list-style-type: none"> <li>▶ Reliance on paper based systems, which led to problems in relation to the retention of financial records.</li> <li>▶ Lack of segregation of duties, including inadequate review of journal entries and lack of purchase orders.</li> <li>▶ Financial systems that have not been kept up to date, including the payroll system, or are not fit for purpose, such as the fixed asset register.</li> <li>▶ Significant delay in the transition to the Government Banking Service leading to the maintenance of unnecessary bank accounts.</li> </ul> <p>The College must improve key financial controls to ensure that the weaknesses identified are addressed at pace.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The reliance on paper based systems is recognised as a key contributor to weaknesses in our internal controls. This has caused particular issues in relation to our payroll. This was identified by SMT who added this to the risk register and commissioned internal audit work to quantify the extent of the issue.</p> <p>Steps already taken include</p> <ul style="list-style-type: none"> <li>• Internal Audit Action Plan commissioned and partially actioned</li> <li>• Affected staff informed of issue and steps being taken to rectify and recompense</li> <li>• Amended the payroll system user access rights to ensure that that these are appropriate for user roles and remove all generic users from the payroll system</li> <li>• Strengthened controls around variations to staff salaries on the payroll system to reduce the opportunity for unauthorised entries to be added to the tracker and inadvertently processed</li> <li>• Introduced mechanisms to ensure that payroll checklists are always completed and held on file and that these checklists are always checked and signed off by someone independent of the payroll team prior to processing of the payroll.</li> <li>• Internal Audit commissioned to conduct evaluation of pensions and tax payments</li> <li>• Voluntary HMRC Disclosure made</li> </ul> <p><b>Future Actions</b></p> <ol style="list-style-type: none"> <li>1. Develop transition plan towards electronic systems. Work underway towards consistent use of Purchase Orders: <b>September 2020</b></li> <li>2. Introduce quality monitoring of journal entries: <b>February 2020</b></li> <li>3. Complete bank transition: <b>March 2020</b></li> <li>4. Investment in a managed service for Ciph: <b>Underway</b></li> <li>5. Implement Fixed Asset Register: <b>July 2020</b></li> </ol> <p><b>Responsible Officers:</b> VP, HoF, HoHR&amp;OD, HoEst</p> <p><b>Implementation date:</b> September 2020</p>	<p>While progress is continuing to be made, we note that the review of key financial controls and processes is ongoing.</p> <p><b>Our assessment:</b> <b>Ongoing</b></p>

No.	Findings and recommendation	Original Management response	Update on status
5	<p>Staff costs within the Financial Forecast Return have been reduced to reflect the savings required to return a balanced position, rather than as a result of an effective workforce plan. In our view, the Financial Forecast Return does not provide a robust medium term financial plan. The College urgently needs to develop effective medium term financial planning. This should be supported by scenario planning and ongoing monitoring.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p><b>Actions</b></p> <p>Develop alternative scenarios, modelling and fiscal/ budget assumptions to more accurately forecast and monitor future financial impacts</p> <p>Undertake CMT and Board Development sessions on the creation of the FFR for 2021-26</p> <p><b>Responsible officer: HoF</b></p> <p><b>Implementation date: May - September 2020</b></p>	<p>The Board has considered the FFR, along with options to deliver a balanced adjusted operating position in the medium term. We do consider that there is scope for the College to develop their own medium term financial plan out with the FFR process particularly given the current economic environment.</p> <p><b>Our assessment:</b> <b>ongoing</b></p>
6	<p>The College has disclosed a number of significant weaknesses in procurement within its Governance Statement, including lack of competitive tenders for material contracts.</p> <p>The College must ensure that procurement weaknesses are addressed as a matter of urgency.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>SMT identified a weakness in this area and as a result took a number of corrective actions to ensure that appropriate systems and processes were addressed and that policies and procedures were up to date and communicated effectively to staff.</p> <p>SMT acknowledges the 2 areas of non compliance which were already in process of being addressed prior to the external audit being undertaken. These were a contract which is broader than a tendered service relationship and which had been in place since 2004 and which is subject to a current retender process. Secondly, a contract that required reporting to RSB which was undertaken retrospectively was non-compliant. This contract was funded through non-public funded sources</p> <p>SMT have already implemented a control system which includes:</p> <ul style="list-style-type: none"> <li>▶ APUC contract in place</li> <li>▶ Revision of Procurement Strategy and Procedures</li> <li>▶ Contracts register enabling forward planning of contract values, tenders and renewals</li> <li>▶ Greater use of APUC Frameworks</li> <li>▶ Implementing a consistent purchase order system</li> <li>▶ Retendering of non-compliant contracts</li> <li>▶ Discussions with RSB on rationales for exemptions to tender</li> </ul> <p><b>Responsible officer: VP</b> <b>Implementation date: March - July 2020</b></p>	<p>We note that outstanding actions have been completed in year. No issues have been noted from the work performed.</p> <p><b>Our assessment:</b> <b>Complete</b></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	▶ Walkthrough Visit	Completion of internal documentation	April 2022
APR			
MAY	▶ Audit planning and setting scope and strategy for the 2021/22 audit	Annual Audit Plan	April/May 2022
JUN			
SEP	▶ Year-end substantive audit fieldwork on unaudited financial statements	Audited Financial Statements	September/October 2022
OCT			
NOV	▶ Conclude on results of audit procedures	Issue Annual Audit Report	31 December 2022
DEC	▶ Issue opinion on the College's financial statements	Submit Audit Scotland minimum dataset request	31 December 2022

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