

Extraordinary Meeting of F&GP and Audit Committees

Agenda

Meeting reference: F&GP_Audit 2019-20/EM

Date: Tuesday 11 February 2020 at 5:00pm

Location: Room 019

Purpose: Extraordinary meeting re business deferred from Scheduled Meetings of 11 December 2019

* Denotes items for discussion.

	Agenda Items	Author	Led by	Paper
1	Joint Welcome and Apologies		Chairs of F&GP and Audit	
2	Declaration of a Conflict of Interest in any Agenda Item			
3	Extract of Decision & Actions from F&GP & Audit Meetings of 11 December 2019 (for information)	Clerk		Papers 1 & 2
4	Draft Perth College Group Report and Financial Statements for the Year ended 31 July 2019	Head of Finance	Head of Finance	Paper 3
5	External Audit Annual Report 2018-19	EY	EY	Paper 4
6	Internal Audit Update – HR & Payroll Systems	Henderson Loggie	Henderson Loggie	Paper 5
7	Audit Committee Annual Report to the Board of Management	Clerk	Clerk	Paper 6
8	Date and time of next meetings: <ul style="list-style-type: none"> • Audit: 25 February 2020 • F&GP: 04 March 2020 	Clerk		

Finance & General Purposes Committee

EXTRACT OF DRAFT MINUTES – DECISIONS & ACTIONS

Meeting reference: F&GP 2019-20/02

Date and time: Wednesday 11 December 2019 at 5:00pm

Location: Room 019

Members present: David Littlejohn, Board Member
Brian Crichton, Board Chair
Craig Ritchie, Board Member
Debbie Hutchison, Board Member (from Item 6)
Katrina Hodgson, Board Member (from Item 15)
Margaret Cook, Principal

In attendance: Lorenz Cairns, Depute Principal (Academic)
Veronica Lynch, Vice Principal (External)
Catherine Etri, Associate Principal (Curriculum)
Graham Little (Interim Head of Finance)
Katy Lees (Head of HR & Organisational Development)
Ian McCartney, Clerk to the Board of Management

Apologies: Amy Studders (HISA Perth President)

Chair: David Littlejohn

Minute Taker: Ian McCartney

Quorum: 3

Summary of Decisions & Actions

Item	Description	Decision/Action
1	Welcome Principal summarised reasons for absence of annual accounts on Agenda	Clerk to ensure that papers for extraordinary meeting of F&GP/Audit/ Board are circulated at least 1 week in advance of meeting
2	Additional Item – CLOSED	
7	Estates Update	Depute Principal (Academic) to prepare brief based on Paper 3 for a competitive procurement process re Estates Strategy, inclusive of options appraisal.

Item	Description	Decision/Action
14	External Audit 2018-19: Status	Rationale on Paper 1 to be amended to avoid pre-judgement of outstanding investigations (Principal)
14	External Audit 2018-19: Status	Disclosures summary actions on Paper 1 to be qualified to reflect no guarantee that all issues identified (Principal)
14	External Audit 2018-19: Status <u>Recommendation 1:</u> Note the rationale for the extended date for completion of fully audited Financial Statements for the year ended 31 July 2019	Approved in principle, subject to amendment of rationale as above
14	External Audit 2018-19: Status <u>Recommendation 2:</u> Note the disclosures for inclusion within the Financial Statements for the year ended 31 July 2019. These will be kept under review until the conclusion of the financial reporting and audit processes are complete.	Approved in principle, subject to qualification of summary as above
14	External Audit 2018-19: Status <u>Recommendation 3:</u> Note and Approve the College's revised approval timeline.	Approved
14	External Audit 2018-19: Status <u>Recommendation 4:</u> Endorse the proposed dates for completion of these statements.	Approved
15.1	Business Development Strategy	Agreed that direction of Paper 2 was correct. Defer to future Board for approval to allow for wider consultation (including Board Development Day).
15.2	International Strategy	Paper 3 Approved subject to insertion of additional info re product ranges, to be tabled at Board meeting, March 2020.

Audit Committee

EXTRACT OF DRAFT MINUTES – DECISIONS & ACTIONS

Meeting reference: Audit 2019-20/02

Date and time: Wednesday 11 December 2019 at 6:00pm

Location: Room 019

Members present: Ann Irvine, Board Member
Andrew Comrie, Board Member
Lynn Oswald, Board Member
Anna Zvarikova, Board Member

In attendance: David Archibald (Henderson Loggie)
Stephen Reid (EY)
Margaret Cook (Principal)
Lorenz Cairns, Depute Principal (Academic)
Veronica Lynch, Vice Principal (External)
Catherine Etri, Associate Principal (Curriculum)
Graham Little (Interim Head of Finance)
Katy Lees (Head of HR & Organisational Development)
Ian McCartney, Clerk to the Board of Management

Apologies: Deborah Das Chaudry (HISA Perth VP Activities & Wellbeing)

Chair: Ann Irvine

Minute Taker: Ian McCartney

Quorum: 3

Summary of Decisions & Actions

Item	Description	Decision/Action
2	External Audit 2018-19: Status	Rationale on Paper 1 to be amended to avoid pre-judgement of outstanding investigations (Principal)
2	External Audit 2018-19: Status	Disclosures summary actions on Paper 1 to be qualified to reflect no guarantee that all issues identified (Principal)
2	External Audit 2018-19: Status <u>Recommendation 1:</u> Note the rationale for the extended date for completion of fully audited Financial Statements for the year ended 31 July 2019	Approved in principle, subject to amendment of rationale as above

Item	Description	Decision/Action
2	External Audit 2018-19: Status <u>Recommendation 2:</u> Note the disclosures for inclusion within the Financial Statements for the year ended 31 July 2019. These will be kept under review until the conclusion of the financial reporting and audit processes are complete.	Approved in principle, subject to qualification of summary as above
2	External Audit 2018-19: Status <u>Recommendation 3:</u> Note and Approve the College's revised approval timeline.	Approved
2	External Audit 2018-19: Status <u>Recommendation 4:</u> Endorse the proposed dates for completion of these statements.	Approved
3.1	Business Development Strategy	Agreed that direction of Paper 2 was correct. Defer to future Board for approval to allow for wider consultation (including Board Development Day).
3.2	International Strategy	Paper 3 Approved subject to insertion of additional info re product ranges, to be tabled at Board meeting, March 2020.
6	Minutes of Audit Committee meeting September 17 2019 Ref Items 15/16	Principal & Clerk to review wording of minute to better reflect clarification provided by EY. Reviewed minute to adopted via Chair's Action
8	Risk Register	Asset Management to be added as separate Risk, per addition to Audit Plan 2019/20
10.2	Revised Internal Audit Plan	Approved proposed priorities, audit days, scope & objectives per Plan (Paper 8)

Committee	Extraordinary Meeting of Finance and General Purposes Committee and Audit Committee
Subject	Financial Statements 2018/19
Date of Committee meeting	11/02/2020
Author	Veronica Lynch, Vice Principal External Engagement
Date paper prepared	06/02/2020
Executive summary of the paper	<p>This paper seeks approval of Perth College UHI Financial Statements for the year ended 31 July 2019.</p> <p>It is recommended that the Committee:</p> <ol style="list-style-type: none"> 1. Endorse the Financial Statements for the year ended 31 July 2019.
Consultation How has consultation with partners been carried out?	Consultation has been undertaken with External Auditors, EY and with the Regional Strategic Body.
Action requested	<input type="checkbox"/> For information only <input type="checkbox"/> For discussion <input type="checkbox"/> For recommendation <input checked="" type="checkbox"/> For approval
Resource implications (If yes, please provide details)	Yes/ No
Risk implications (If yes, please provide details)	Yes/ No

<p>Link with strategy</p> <p>Please highlight how the paper links to the Strategic Plan, or assist with:</p> <ul style="list-style-type: none"> • Compliance • National Student Survey • partnership services • risk management • other activity [e.g. new opportunity] – please provide further information 	<p>This project supports the delivery of the strategic aim of Financial sustainability</p> <p>This paper assists with risk management, compliance with legal duties and with the Code of Good College Governance.</p>
<p><u>Equality and diversity</u></p> <p>Yes/ No</p> <p>If yes, please give details:</p>	<p>Click or tap here to enter text.</p>
<p>Island communities</p> <p>Does this activity/ proposal have an effect on an island community which is significantly different from its effect on other communities (including other island communities)?</p>	<p>Yes/ No</p> <p>If yes, please give details:</p> <p>Click or tap here to enter text.</p>
<p><u>Data Protection</u></p> <p>Does this activity/ proposal require a Data Protection Impact Assessment?</p>	<p>Yes/ No</p> <p>Set out any data protection aspects and whether a data protection impact assessment is needed</p>
<p>Status (e.g. confidential/non confidential)</p>	<p>Confidential</p>
<p>Freedom of information</p> <p>Can this paper be included in “open” business?* -Yes</p>	<p>Papers should be open unless there is a compelling reason for them to remain closed. If a paper, or parts of a paper, are to remain closed the reason for that exemption must be specified – see reasons below</p>

* If a paper should **not** be included within 'open' business, please highlight below the reason.

Its disclosure would substantially prejudice a programme of research	<input type="checkbox"/>	Its disclosure would substantially prejudice the effective conduct of public affairs	<input checked="" type="checkbox"/>
Its disclosure would substantially prejudice the commercial interests of any person or organisation	<input type="checkbox"/>	Its disclosure would constitute a breach of confidence actionable in court	<input type="checkbox"/>
Its disclosure would constitute a breach of the Data Protection Act	<input type="checkbox"/>	Other [please give further details] Click or tap here to enter text.	<input type="checkbox"/>

For how long must the paper be withheld? Until the OBC and FBC are approved and funding awarded to begin the project. This would be for an estimated 12 months.

Further guidance on application of the exclusions from Freedom of Information legislation is available via:

<http://www.itspublicknowledge.info/ScottishPublicAuthorities/ScottishPublicAuthorities.asp>

and

http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf



University of the
Highlands and Islands
Perth College

Draft Report and Financial Statements for the Year Ended 31 July 2019

Also available in large print (16pt)
and electronic format.

Ask Student Services for details.

www.perth.uhi.ac.uk

Perth College is a registered Scottish charity, number SC021209.

Perth College – for the year ended 31 July 2019

Key Management Personnel, Board of Management and Professional Advisers

Key Management personnel

Key management personnel are defined as members of the Senior Management Team and were represented by the following in 2018-19:

Dr Margaret Cook, Principal and Chief Executive; Accounting Officer
Lorenz Cairns, Depute Principal (Interim 2nd April to 14th October 2018)
Jacqueline Mackenzie, Chief Operating Officer (Left 31st December 2018)
Veronica Lynch, Vice Principal, External
Catherine Etri, Associate Principal (From 19th June 2019)

External Auditor:

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EB

Internal Auditor:

Henderson Loggie
The Vision Building
20 Greenmarket
Dundee
DD1 4QB

Bankers:

Bank of Scotland
10-16 King Edward Street
Perth
PH1 5UT

Royal Bank of Scotland
12 Dunkeld Road
Perth
PH1 5RB

Solicitors:

Thornton Solicitors
17-21 George Street
Perth
PH1 5JY

Perth College – for the year ended 31 July 2019

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Perth College – for the year ended 31 July 2019

Performance Report

Overview

The performance report provides an overview of the Perth College UHI (“the College”) performance in the academic year to 31 July 2019 covering:

- a statement from the Principal providing her perspective on the performance of the College over the period;
- a statement of the purposes and activities of the College;
- the key issues and risks that could affect the College in delivering its strategic plan 2016-2021; and
- a performance analysis, financial review for the year, key risks affecting the College and social matters.

Statement from Perth College UHI Principal and Chief Executive, Dr Margaret Cook

Academic year 2018/19 has been a successful one for Perth College as a result of the continued hard work and dedication of our staff and students.

The National Student Survey for 2018/19 provided an overall level of student satisfaction from final year HND and degree students studying at the Perth Campus of the University of the Highlands and Islands at 85% which is above the Scottish and UK Higher Education Institutions average. Similarly, within the Student Satisfaction and Engagement Survey (SSES) 2018/19, an overall satisfaction score of 94.8% has put the College 0.5% above the Scottish average. The overall Postgraduate student satisfaction rate was 89%, which was 9% above the national average.

This year has seen ongoing challenges in relation to funding levels, resulting in the College realigning its outreach activity from within college owned/ leased Learning Centres within Kinross, Blairgowrie and Crieff. Activity during 2019/20 onwards will be delivered from within partner facilities in those and wider Perthshire venues. The impact of this change will be monitored during the coming year.

The College has focussed on increasing the diversity of its activities including growing its international partnerships and increasing student recruitment, particularly from China and Japan, as well as targeting other new international markets. Our language school achieved success as the top rated British Council Accredited language school within Scotland.

The Flexible Workforce Development Fund has enabled the College to widen its customer base across the Perth and Kinross Region. Our continued engagement with regional businesses delivering Foundation and Modern Apprenticeships along with a responsive and flexible curriculum to support in-work progression enables us to play a vital role to support regional workforce development needs and increased productivity. This is further cemented through the provision of 50 scholarships for our students supported by regional businesses.

Perth College – for the year ended 31 July 2019

Introductions of new courses included the BA Hons Food, Nutrition and Textiles Education to address the demand for Home Economics teachers and the BSc Honours Sports Therapy and Rehabilitation to support industry skills needs.

Sport is a key strength of the College with the Academy of Sport and Wellbeing (ASW) integrating the curriculum across a range of health and wellbeing areas. The commercial strand of ASW has seen good growth, particularly the gym at 83% growth with 59% overall income growth in financial year 2018/19 to £477,000.

With over 40 commercial partners, 1,300 gym members and around 3,500 registered climbers, the ASW is in good shape. What is most pleasing is the impact ASW has on the health and wellbeing of our students, staff and the community of Perth with 10,000 visits per month to use ASW commercial facilities.

This, together with supporting over 40 students through work placements and employment opportunities, and with 20 students/graduates employed across the gym, sports hall, reception and climbing departments, means the balance of curriculum and commercial is strong.

Most recently we have employed four current students as part time bank staff to our new ASW Sports Therapy Clinic. This gives commercial enterprise experience to our degree students studying soft tissue therapy.

In addition, and whilst it is a planned future investment, 2018/19 has seen the announcement of funding for a Perth College led project, the 'Aviation Academy for Scotland' being as part of the Tay Cities Deal fund. This will provide a potential £6.03m capital funding for the development of a new facility to deliver Aircraft Engineering skills and qualifications through the College and from our subsidiary company, Air Service Training (Engineering) Limited ("AST").

AST has seen a challenging, but successful, year with the introduction of a new General Manager along with a diversification of its customer base into new markets. The development work for a new degree in Aircraft Maintenance Engineering and Management enables students to achieve the Part 66 qualification offered by AST within the BSc Degree in collaboration with the College's Aircraft Engineering team. The new degree has been available for recruitment from September 2019.

In conjunction with our UHI partners, November 2019 saw the opening of the UHI Micro Campus in China at Hunan Institute of Engineering. This was the culmination of several years of successful delivery of degrees in Electrical and Mechanical Engineering. This partnership will flourish with recruitment projected to double from 2021 onwards and will be a key part of our future growth in international recruitment.

Dr Margaret Cook
Principal & Chief Executive

Perth College – for the year ended 31 July 2019

Purposes and Activities

Legal Status

The Board of Management was established under the Further and Higher Education (Scotland) Act 1992 for the purposes of managing and conducting Perth College.

The Office for National Statistics reclassified colleges as part of Central Government for National Accounts purposes since 1st April 2014.

The College is correctly registered with the Office of the Scottish Charity Regulator for charity status and is recognised by HM Revenue & Customs as a charity for tax purposes.

The College is one of the 13 Academic Partners within the University of the Highlands and Islands (“UHI”) and forms part of the UHI FE Regional Strategic Body for reporting purposes to Scottish Funding Council.

Vision, Mission and Activities

Our Vision for the Future

In June 2016, the Board of Management adopted Vision 2021: Strategic Plan 2016-21.

Our Vision is...

To be an inspirational partner in economic and social transformation

Our Mission is...

To change lives through excellence in education, research and innovation, developing knowledge and skills and the experience to succeed.

Our Values are...

Ambition, Integrity and Respect.

Perth College – for the year ended 31 July 2019

Implementation of Strategic Plan

The College Strategic Plan 2016-21 aligns to the UHI Regional Outcome Agreement to ensure a strong and ambitious contribution to the success of Perth and Kinross, our wider region and University, and beyond. Vision 2021 is the outcome of extensive consultation with students, staff, partners and community groups and is designed to take the college forward in the future as tertiary institution and recognises the contribution of all areas of the College to the five underlying aims to:

- Inspire and empower our students, regardless of background, to recognise and achieve their potential;
- Work in partnership to foster and drive positive change and growth in local, regional, national and international economies;
- Provide dynamic learning and research experiences within a curriculum that meets economic and societal needs and aspirations;
- Optimise the sustainable use of our systems, processes and resources to provide the best possible student experience and outcomes;
- Have a talented, confident and inspirational staff who contribute to and make a vital difference to the success of students, the life of the College, the University and our communities.

Each underlying aim is supported with specific aspirational targets to be achieved by July 2021 in line with the College's Vision 2021, Strategic Plan 2016-21.

Performance Summary

The targets set for 2019 in the College's Strategic Plan were set in the context of national, regional and local priorities and form part of the overall UHI Regional Outcome Agreement. This integration ensures that we contribute fully to the outcomes of the region as a whole and College performance against these targets is monitored using the balanced scorecard of key performance indicators.

The performance of the College is regularly reviewed by the College Board, the FE Regional Board and the University of the Highlands and Islands as well as a range of external bodies and agencies, including the Scottish Funding Council and Skills Development Scotland.

The Board monitors the performance of the College using a balanced scorecard supplemented by a narrative which reports on four cross-cutting themes:

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

These perspectives are reviewed by the Board of Management who have also delegated the responsibility for individual targets to relevant sub-committees. The balanced scorecard records and reports past trends and thus includes performance, actual and forecast, over the period until 2018-19.

Perth College – for the year ended 31 July 2019

Operating Context

The College is a successful and thriving tertiary education institution providing a wide range of learning opportunities to local, regional, national and international learners: from access courses to opportunities for study at postgraduate level, encompassing vocational and professional training and skills development opportunities. Perth College UHI delivers courses at the main campus in Perth, at learning centres and in secondary schools across Perth and Kinross. We support work-based learning across a wide area, as well as contributing to the University's innovative and progressive use of video conferencing, providing access to expertise and curriculum across the Highlands and Islands and beyond.

As both a College and a University, the College is uniquely placed to support the strategic opportunities and challenges within the Perth and Kinross region, while impacting the Scottish economy in key industry areas including Aviation, Engineering, the Rural Environment, Health, Hospitality, Teaching, Business Management and the Creative Economy. This is due to a combination of teaching and research expertise as well as our location being within 50 miles of 90% of Scotland's population.

The College delivered 24,627 credits in 2018-19, achieving our 23,655 core target and a further 972 credits against a target of 1,200 credits of European funding.

The College exceeded its HE numbers of 1,986.4 FTEs against a target of 1958 FTE and 38.7 Postgraduate FTEs against a target of 32 FTE's. In a highly challenging recruitment environment, the College has largely maintained its footprint and reach of total tertiary student numbers against an increasing cost base resulting in financial challenges.

Key Risks & Uncertainties

Outlined below is a description of the principal risk factors that may affect the College achieving its strategic objectives. Not all factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

a. Financial Uncertainty and Sustainability

The College has considerable reliance on continued Government funding through the SFC and UHI. In 2018/19, 58% of the College's recurrent revenue was ultimately publicly funded, however with Scottish Funding Council funding allocations being flat over the last few years with the exception of increased allocations to cover the sector cost increases of national bargaining and pensions, overall funding reductions of an estimated 4% per annum are planned. These financial risks have been highlighted on a sector wide basis by Audit Scotland – *Scotland's Colleges 2019* Report published in June 2019.

Perth College – for the year ended 31 July 2019

The College is planning to mitigate these future financial risks in a number of ways:

- Reviewing the College curriculum to ensure it continues to deliver an excellent student experience while continually adapting to regional and national labour market needs;
- Maximising recruitment and reviewing delivery approaches focussing on optimal class sizes;
- Undertaking consultation discussions with staff and trade unions to ensure the College can achieve a balanced budget for current and future years; and
- Increasing the proportion of non-government income to counter the increased cost base will be required. Widening and deepening relationships with regional businesses to generate commercial income streams will be crucial for the longer term sustainability of the College.

b. Brexit

The College has approximately £3m (7%) of its funding from European Union (“EU”) sources, including EU student nationals undertaking their learning at the College. Following the UK’s official departure from the European Union there remain ongoing uncertainties, and therefore risks, associated with the UK’s future relationship with the EU.

These risks are mitigated in a number of ways:

- The College seeks to maximise income from non-Exchequer sources through a number of direct and indirect commercial contractual arrangements;
- By realigning EU revenue sources by increasing international partnerships and on campus student recruitment;
- By delivering consistently dynamic, excellent learning and training throughout the College, including with our international partnerships;
- Maintaining and managing key relationships with the various funding bodies;
- Regular interaction and dialogue with funding bodies; and
- Identifying areas where the College can reduce recurrent costs in order to maintain financial sustainability.

Perth College – for the year ended 31 July 2019

c. Unfunded Pension Liabilities

The financial statements report the provision made for pension costs arising from past early retirements in line with the valuation carried out by an independent firm of actuaries. The College's share of the Local Government Pension Scheme deficit is reported in the College's balance sheet in line with the requirements of FRS 102.

Unfunded pension liabilities means the extent to which the pension scheme does not have the assets to cover its liabilities to member. The risk to the College is that the College may not be able to generate sufficient funds in the future to cover such liabilities as they fall due.

The Board of Management consider that the likelihood of this liability arising in the short or medium term is remote.

d. Overseas Students

Our experienced and dedicated team in our International Centre looks after our overseas student population. The strategic and operational risks associated with overseas students are actively monitored by the international team and our academic structures.

The risks associated with overseas students are that if restrictions (such as those currently in place around the Coronavirus) are put in place that restrict student travel to the UK, or the College's travel overseas, then that will materially impact the income that the College can earn in relation to those students.

Given the College's commitment to staff wellbeing, there is also the risk associated with College Staff travelling overseas to jurisdictions that do not necessarily have the same personal or health protections as at home.

This could have a significant impact on the College with, in excess of, 100 students per annum being taught by the College in China.

The College has built up a network of international partnerships with an increasing number of well-established educational establishments in China and Japan with newer partnerships being developed in India, North America and SE Asian markets which is being supplemented by a number of overseas agents. We continue to successfully retain our Tier 4 licence through UK Visas and Immigration. It is expected that the reintroduction of the Post Study Work visa will generate interest from previously dormant markets for international student recruitment.

Perth College – for the year ended 31 July 2019

Performance Analysis

The following key performance measures were reported in the Board of Management's final report on the College's performance for the academic year 2018/19 with a comparison against 2017/18:

Key Performance Measure	2018/19	2017/18	Movement
HE Recruitment FTEs	1,986.4	1,989	Down 2.6 FTEs
FE Recruitment Credits	24,627	26,161	Down 1,534 Credits
NSS Overall Satisfaction	85%	88%	Down 3%
SSES Overall Satisfaction	94.8%	96.7%	Down 1.9%
Positive Destinations - FE	84%	84.4%	Down 0.4%
My time at college has helped me develop skills for the workplace	91.7%	93.9%	Down 2.2%
Staff turnover	15.4%	16.1%	Better by 0.7%
Staff absences days per head	5.19	14.58	Better by 9.39 days
Staff CPD days per employee	5.3	4.8	Better by 0.5 days
% of permanent teaching staff with Teaching Qualification in Further Education	84%	83%	Better by 1%
No. of staff delivering papers to conferences	19	5	Better by 6 papers
No of staff publications	8	14	Down by 6 publications

Financial Performance

Our goal is to optimise financial stability through innovative and careful management. Every effort will be made to maximise the efficient and effective use of funds to support the academic aims and objectives of the College within the constraints of central government accounting rules. Scottish Government budgeting and accounting requirements require the College to at least break even on both an operational and resource basis in each fiscal year and to minimise cash balances.

Perth College – for the year ended 31 July 2019

The following table gives a summary of key financial and other operating ratios:

	2018/19	2017/18
Operating Surplus/Deficit as % of Total Income	(1.20%)	(6.04%)
Non SFC Income as % of Total Income	41.47%	38.95%
Current Assets : Current Liabilities	0.99	0.62
Staff Costs as a % of Total Income	69.86%	73.97%
Ratio of days cash to total expenditure	36.6	31.3
Staff Turnover	15%	18%

The methodology to calculate some of the ratios above has changed this year so the 2017/18 comparator figures have been amended to allow direct comparison.

Financial Results

These financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice 2015 (“SORP”): ‘Accounting in Further and Higher Education’; the Financial Reporting Standards FRS 102 and the 2018-19 Government Financial Reporting Model (FReM) issued by the Scottish Government and in accordance with applicable Accounting Standards.

They conform to the 2018-19 Accounts Direction for Scotland’s Colleges and Glasgow Colleges’ Regional Board (“the 2018-19 Accounts Direction”) and other guidance issued by the Scottish Funding Council (“SFC”).

The College’s Financial Performance during FY 2018/19 was solid in the context of ever increasing financial pressures. The College recognises the risks posed by an increasing cost base, particularly staff costs, against changing demand and reduced central funding.

The current operating and funding model in place across the UHI partnership places an increased risk to financial sustainability. The complexities of delivery across the region and accounting for this, create a sizeable challenge in terms of efficient delivery and management.

Following their reclassification as central government bodies from 1 April 2014, colleges are also required to comply with Central Government budgeting rules. In addressing the impact of these budgeting rules, Scottish Government and SFC committed to providing the cash budget previously earmarked for depreciation for use on specified priorities.

Perth College – for the year ended 31 July 2019

Colleges have now each been given a fixed cash budget for priorities which must be spent on agreed government priorities. The College's spend of its cash budget for priorities, and the impact on the operating position for the academic year, is set out in the tables below.

	2018-19	2017-18
	£'000	£'000
Table of cash budget for priorities spend		RESTATED
Revenue Priorities		
2015-16 pay award	117	19
Voluntary severance	-	-
Estates capital development	-	-
Total impact on operating position	117	19
Capital Priorities		
Loan repayments	300	400
Unfunded pension payments	112	110
Total Capital	412	510
Total cash budget for priorities spend	529	529

The Statement of Comprehensive Income ("SOCI") presents the financial performance during the accounting period in accordance with the SORP.

The Adjusted Operating Position ("AOP") is intended to reflect the underlying operating performance after allowing for material one-off or distorting items required by the SORP or other items outwith the control of the institution.

Perth College – for the year ended 31 July 2019

The AOP is therefore designed to smooth any volatility in reported results arising from FRS 102 and also to recognise that some of the reported costs do not have an immediate cash impact on the institution. All adjustments should be cross-referenced to the relevant note in the financial statements.

Adjusted Operating Position	2018-19 £000	2017-18 £000 RESTATED
Surplus/(deficit) before other gains and losses	(326)	(1,450)
Add Back:		
Depreciation - net of deferred capital grant release (Note 1)	855	884
Pension adjustment – Net Service Cost (Note 2)	1,010	737
Pension adjustment – Net Interest Cost (Note 3)	64	230
Pension adjustment - Early retirement provision	-	-
Donation to Arms-Length Foundation (ALF)	-	-
Deduct:		
Non Government capital grants		
Exceptional income (if disclosed as exceptional in the accounts)		
CBP allocated to loan repayments and other capital items (Note 4)	(412)	(510)
Adjusted Operating Surplus/(Deficit)	1,191	(109)

Note 1: Depreciation does not have an immediate cash impact on the institution and, in any case, capital expenditure will largely be funded by government or ALF grants so the charge is taken out.

Note 2: The adjustments to the pensions charge represent the net service cost (i.e. the present value of projected benefits resulting from employee service in the current year less cash contributions paid).

Note 3: The net interest cost is the interest accumulated on the pension liability and this is offset against the current year's interest earned on pension assets.

Note 4: Cash Budget for Priorities is included in income but the loan repayment is not reflected in the costs therefore this amount is adjusted. Loan repayments should only be adjusted where CBP has been used to fund them.

Treasury Policies and Objectives

The College has a separate treasury management policy in place and defines treasury management as the management of the organisation's cash flows, its banking and investment transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

Perth College – for the year ended 31 July 2019

Cash Flows and Liquidity

As set out in the table of key financial ratios above, the College maintained a positive cash flow during the year and also repaid its loan. At 31 July 2019 the liquidity and cash flow ratios are:

	2018/19	2017/18
Liquidity (Current assets ÷ Current liabilities)	0.86	0.61
Days cash to total expenditure	36.6 days	31.3 days

Payment Performance

The College has a policy of paying its suppliers within 30 days of invoice unless other separate terms are in place, and excluding invoices held in dispute. The level of creditors in terms of the year end creditors to the aggregated invoiced amounts during the year was 30 days (2017-18 28 days). No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998.

Estates Strategy

In line with the College Strategic Plan 2016-21, discussed above, and in relation to the aim to optimise the sustainable use of our systems, processes and resources, the College is undertaking a review of its estate. The purpose the review is to underpin a forward strategy to ensure an estate that is fit for purpose in the 21st century. As part of this, future developments within the College estates programme include:

- The development of the Perth based element of the Aviation Academy for Scotland on the College's Crieff Road Campus;
- Expansion and enhancement of the Academy of Sport and Wellbeing facilities to capitalise upon the increasing membership of the gym, sports facilities and climbing wall. These developments will be funded through sponsorship and donations raised through the College's Development Trust and Committee;
- The development of a mezzanine floor within the Construction workshops to capitalise upon a growth in demand for skills in this discipline;
- Improving and re-purposing existing facilities to provide an integrated approach to the development and delivery of curriculum, research and wider stakeholder engagement within all areas, Examples include the delivery of a Sports Injury Clinic as well as a Beauty Therapy service, both run as student enterprises.

A key future industry development project is the Aviation Academy for Scotland, supported by the Tay Cities Deal. This is an industry partnership focussing on addressing the growth demand for skills required within the Aviation industry. The project is led by Perth College UHI in partnership with Tayside Aviation and Air

Perth College – for the year ended 31 July 2019

Service Training. Should this project proceed from current its current Outline Business Case stage towards being funded through the Tay Cities Deal, this capital investment of £6.03 million would be from 2020/21.

Non-Financial Issues

Human Rights

The College has published a Slavery and Human Trafficking Policy Statement as required by the Modern Slavery Act 2015. This statement is reviewed annually and the actions from it implemented in all purchasing activity by requiring all new suppliers to confirm that they have “effective procedures in place to comply with the Modern Slavery Act 2015” before any transaction can take place.

Details of our requirements have been incorporated into the College’s Standard Terms and Conditions upon which all purchase orders and local contracts are based. These requirements are also included in the many frameworks we utilise, awarded by centres of expertise such as Advance Procurement for Universities and Colleges (“APUC”), Scottish Procurement and Crown Commercial Service (“CCS”).

Where modern slavery, human rights or workforce matters are identified as a potential risk in contracting for goods and services, relevant and proportionate requirements are included within our specification of requirements and appropriately probing questions are asked of bidders to demonstrate compliance with applicable laws, regulations and policies such as International Labour Organisation standards.

As a Scottish Living Wage Foundation accredited employer we also endeavour that all on-site contractors are paid at least the Real Living Wage, as set annually by the Living Wage Foundation. This has also applied to our catering contract.

There have been no complaints of any breaches of human rights within our supply chain.

Anti-Corruption and Bribery Matters

For regulated procurement, all suppliers are required to confirm that they are “in full compliance with and support the Bribery Act 2010” before any transaction can take place. Details of our anti-corruption requirements are stated in the College’s Standard Terms and Conditions upon which all purchase orders and local contracts are based.

These requirements are also included in the many frameworks we utilise, awarded by centres of expertise such as Advance Procurement for Universities and Colleges (“APUC”), Scottish Procurement and Crown Commercial Service (“CCS”).

The College has a Fraud Prevention Policy and Response Plan which is included in our review plan and clearly details the requirements for staff members to adhere to as well as advising on how to report suspected breaches.

Perth College – for the year ended 31 July 2019

Our procurement and financial transaction processes ensure a clear separation of duties between requestors, budget approvers and payees to mitigate against potential risk or fraudulent activity.

There have been no complaints of any breaches of corruption or bribery within our supply chain.

Climate Change (Scotland) Act 2009

One of the College's Strategic priorities within its Regional Outcome Agreement is to deliver against the SFC National Performance Measures reduction in our gross carbon footprint. The College has reduced its carbon emissions from 1,864 tonnes of carbon dioxide equivalent ("tCO₂e") in 2015/16 to 1433 tCO₂e in 2018/19.

Investment has been made in carbon and energy use monitoring, waste management monitoring, increasing environmental awareness with staff and students and engaging with stakeholders on sustainable development initiatives. During 2018/19, examples have included:

- Investment in electric vehicles on campus;
- Installation of more energy efficiency services including LED Lighting, energy efficient boilers and waste minimisation efforts;
- The College engaged a Cycling Officer via funding from Cycling Scotland in 2019 to promote active travel and cycling awareness across the sustainable travel agenda;
- The College was shortlisted for two sustainability EAUC Green Gown Awards in 2019 with activities relating to the Sports and Fitness department. The projects were "Increasing employability in outdoor activities", and "Intergenerational Physical Activity in Care Homes".
- The College's Highlands and Islands Students Association ("HISA") participated in Green Week in September 2019 and in Climate Week in October 2019 with various activities e.g. litter picking, and climate awareness raising
- The College provided two workshops on Sustainability and Carbon Footprint at the February 2019 Staff Conference
- The College influences emissions beyond its corporate boundaries through educating its students and staff in sustainability and climate change issues. Included within the curriculum is education on sustainability issues.

The College also confirms compliance with the Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009 which sets out the required content for the report to Scottish Government.

Perth College – for the year ended 31 July 2019

The College has reported every year since the 2015 Schedule became active, including the initial voluntary year in 2015/16. Perth College UHI is also an active participant in the Environmental Association of Universities and Colleges (EAUC).

Reputation

The College has a good reputation locally, nationally and internationally. Maintaining a quality brand is essential for the College's success in attracting students and developing and maintaining external relationships.

The College has invested significantly in developing its reputation nationally with a particular focus on influencing policy and internationally by delivering quality programmes and by broadening the reach and strength of international partnerships.

Stakeholder Relationships

In line with other colleges and universities, the College has many stakeholders.

The College actively engages with Scottish Government ministers, senior civil servants and the Scottish Funding Council both independently and through Colleges Scotland to update progress on delivery against key national priorities as well as influencing future policy. This would include within policy areas of Skills Alignment Strategy, the Learner Journey Review and Developing the Young Workforce.

In order to ensure our curriculum continues to meet current and future regional and national industry needs, continued engagement with Skills Development Scotland and industry bodies across our curriculum teams and directly into businesses. The College's Foundation, Modern and Graduate apprenticeship delivery relies on these strong industry relationships to ensure skills demands are met and delivery compliance is achieved. The College had strong performance in these areas during 2018/19.

The College's relationship with Perth and Kinross Council and its other regional partners through the Perth Development Board, Community Planning Partnership and the Strategic Education Group has been crucial to ensuring the College continues to be well regarded for its influence in economic and social transformation.

This includes the role the College plays in ensuring there are suitable progression routes for all learners from the Senior Phase pathways through to vocational, degree and postgraduate provision.

The College's role as one of the largest partners within UHI ensures that influence impacts the full Highland's region with the range of Networked provision delivered by the College or hosted in Perth campus.

In partnership with our staff, trade unions and HISA, a greater focus on the student experience continues to be extremely important to the College. The external student satisfaction survey results show positive feedback.

Perth College – for the year ended 31 July 2019

Continued investment in this area has been made during 2018-19 to improve student attainment and retention. This has included including greater engagement of class representatives to support all students, particularly with care experienced students and those experiencing anxiety and mental health issues. The investment of additional counsellors from 2019-20 will provide a welcome boost to address the growing demand for these services.

Alongside this, consultation discussions have taken place with Trade Unions to identify areas for savings with the Colleges 2019/20 budget.

Equality & Diversity

Equality and Diversity Vision

At Perth College UHI we have a passion for achieving more, a passion to become the most inclusive college in Scotland.

Equality Reporting

We continue on our journey of ensuring the student and staff experience at the College is excellent. We continue to mainstream equality and diversity into all aspects of our operations and in doing so provide a learning and working environment which is founded on key principles of fairness, opportunities and respect for everyone.

Central to mainstreaming has been the gathering and consideration of further relevant data. This has involved assessing existing available evidence and also considering what other evidence may be available to help us make progress in further meeting the general equality duty.

Reporting on this work will help us to demonstrate to our staff, students and other stakeholders that we are taking steps to further mainstream the equality duty into the exercise of the functions of our College, and the progress we have made.

Due to resource limitations and a change in staffing we are now working to complete our statutory reporting requirements which were due to be published by the end of April 2019. These outstanding reports will be published by the end of March 2020 and will be available on our website at:

<https://www.perth.uhi.ac.uk/about-us/policies-regulations-and-guidelines/>

Perth College – for the year ended 31 July 2019

Disclosure of Information to Auditor

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditor is unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditor is aware of the information.

Senior Team Restructuring

There have been a number of changes in the College management team during 2018/19 which has caused disruption to some of our control processes. As a result, we have identified and disclosed a number of weaknesses within the Governance Statement. We have action plans underway to ensure that weaknesses are addressed at pace. We will continue to seek to improve and respond to areas requiring improvement that are identified by the College or its external and internal auditors.

Approved by order of the member of the Board of Management on 20 February 2020 and signed on its behalf by:

Dr Brian Crichton
Chair

Perth College – for the year ended 31 July 2019

Accountability Report

The Accountability Report has three sections:

- The Remuneration and Staff report;
- The Corporate Governance report; and
- Parliamentary Accountability report

Remuneration and Staff Report

Introduction

The College is required to prepare and publish within its financial statements an annual Remuneration Report under the 2018/19 Government Financial Reporting Model (FReM) issued by HM Treasury.

The report sets out the remuneration and accrued pension benefits of the Senior Management Team members of the College. Other than the Principal, no other member of the Board is remunerated.

The report also provides information on the number of College employees (including Senior Management Team members) whose total actual remuneration was £60,000 or more. This information is disclosed in salary bandings of £10,000 above £60,000. The following report has been prepared in accordance with the aforementioned Regulations.

All information disclosed in the tables in this report has been audited by the College's external auditor and all other sections of the Remuneration Report are reviewed to ensure they are consistent with the financial statements.

Remuneration arrangements

Senior Management Team

The Remuneration Committee makes recommendations to the Board of Management on the service arrangements and remuneration of the Principal and determines the service arrangements and remuneration of the other senior post holders.

Perth College – for the year ended 31 July 2019

Remuneration of the Senior Management Team is as set out in Note 8 to the financial statements. In addition, the following table provides detail of the remuneration and pension interests of senior management.

Name	Role	12 months ended 31 July 2019			12 months ended 31 July 2018		
		Salary £000	Pension Benefit £000	Total £000	Salary £000	Pension Benefit £000	Total £000
M Cook	Principal	105-110	20-25	125-135	100-105	20-25	125-130
P Wilson	VP	-	-	-	20-25	(5)-(10)	10-15
L Cairns	Deputy	70-75	95-100	165-175	0	0	0
C Etri	VP	60-65	80-85	140-150	0	0	0
V Lynch	VP	75-80	85-90	160-170	15-20	0-5	15-20
J Mackenzie	Chief Op Officer	55-60	15-20	70-80	75-80	25-30	105-110

- L Cairns was interim Deputy Principal between 2 April 2018 and 14 October 2018. Full year equivalent salary would have been £76,000.
- J Mackenzie left on 31 December 2018. Full year equivalent salary would have been £80,000.
- C Etri joined the College's SMT as a Vice Principal on 9 June 2019. Full year equivalent salary would have been £66,000.

Higher Paid Employees

The following table shows the salary bandings of staff above £60k.

Salary Band £000	2018-19 Number of staff	2017-18 Number of staff
60-70	5	2
70-80	2	3
80-90	0	0
100-110	1	1

Compensation for loss of office

Six employees left under compulsory redundancies during the year. In total they received a compensation payment of £17,000. No employees left under voluntary redundancy terms. Two other members of staff left the College as other agreed departures but no payments were made other than statutory notice. These two members of staff have been discussed with the Regional Strategic body and the College is awaiting advice on retrospective position.

Perth College – for the year ended 31 July 2019

The table below summarises the exit packages by cost band.

Exit package cost band	Number of voluntary redundancies	Number of other departures agreed (including any compulsory redundancies)	Total number of exit packages by cost band
<£10,000	-	6	6
Total number of exit packages	-	6	6
Total cost (£'000)	-	17	17

Pay Multiples

The College is required by the FReM to disclose the relationships between the remuneration of the highest paid official and the median remuneration of their workforce. During 2018/19, the mid-point of the banded remuneration of the highest paid official was 4.2 times (2017/18; 4.1 times) the median remuneration of the workforce.

	2018-19	2017-18
	£	£
Median Remuneration	25,460	25,401
Mid-Point of Banded Remuneration of Highest Paid Official	108,000	105,000

Accrued pension benefits

Pension benefits for Employees are provided through the Scottish Teacher's Superannuation Scheme (STSS), a defined benefit scheme, which is externally funded and contracted out of State Earnings-Related Pension Scheme and the Local Government Pension Scheme (LGPS), Tayside Pension Fund.

Prior to 1 April 2015 both STSS and LGPS were final salary pension schemes. This meant that pension benefits were based on the final year's pay and the number of years that the person had been a member of the scheme. From 1 April 2015 both pension schemes became Career Average Revalued Earnings (CARE) schemes.

A CARE scheme means that pension benefits are now built up using an accrual rate of 1/57th of annual pensionable pay for STSS and 1/49th of annual pensionable pay for LGPS. Benefits built up prior to April 2015 will be protected and continue to be calculated on final pensionable pay.

Perth College – for the year ended 31 July 2019

The scheme's normal retirement age is now linked to the members own State Pension Age.

Contribution rates are set annually for all employees and are based on salary bandings. There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

The value of the accrued pension benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued within the relevant scheme and may not be reflective of their total Local Government service or current appointment.

In considering the accrued pension benefits figures the following contextual information should be taken into account:

- i. figures for pension and lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement.
- ii. accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Perth College – for the year ended 31 July 2019

Senior Management Team Pension

Pension benefits are provided to Senior Management Team on the same basis as all other staff. The accrued pension benefits for Senior Management Team members are set out in the table below, together with the pension contributions made by the College:

Name	Accrued pension at pension age at 31 July 2019	Accrued lump sum at pension age at 31 July 2019	Real increase in pension 1 August 2018 to 31 July 2019	Real increase in lump sum 1 August 2018 to 31 July 2019	CETV at 31 July 2019	CETV at 31 July 2018	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
M Cook	0-5	0	0-2.5	0	57	29	28
L Cairns	25-30	75-80	2.5-5	12.5-15	615	505	101
C Etri	20-25	70-75	2.5-5	10-12.5	578	486	92
V Lynch	20-25	25-30	5-7.5	2.5-5	389	290	99
J MacKenzie	5-7	0	0-2.5	0	103	91	12

Gender Split for Perth College Board of Management and Senior Management Team

Board of Management				Senior Management Team	
Non-Executive Board Members		Staff Board Members			
Male	Female	Male	Female	Male	Female
58%	42%	67%	33%	33%	67%

Staff Numbers and Costs

	2019	2019	2019	2018
	Permanent Staff	Other staff	Total	Total
Total staff costs (£000)	13,838	3,983	17,821	16,795
Average number of FTE	330	95	425	421

Perth College – for the year ended 31 July 2019

Based on headcount, the College employed 409 females and 269 males as at 31 July 2019.

Sickness Absence Rates

The following table provides the total sick days lost, average sick days per head and percentage of working time lost as at 2018/19 (and 2017/18)

	2018-19			2017-18		
	Total sick days	Average sick days per head	% working time lost	Total sick days	Average sick days per head	% working time lost
Total	2,934	5.19	3.1%	6,824	14.58	6.23%

Working days lost through sickness absence expressed as a percentage of lost time against the total available working days was 3.1%. This is a return to levels similar in 2016/17, and is an improvement of 3.13% from 2017/18.

The improvement is due to a greater focus on absence management and can be attributed to a more stable year with limited change processes during 2018/19.

Policies in relation to disabled persons

The College Equality and Diversity Policy sets the principles and values of equality and diversity for the College. These are implemented through the College's Equality Outcomes and associated action plan which are aligned to the College Regional Outcome Agreement as well as the policies and procedures that guide the way in which people behave. Progress against the Equality Outcomes will be reported on the College's website.

The policy is also implemented through a number of policies and procedures that concern the experience of staff and students. For staff, these cover the employment cycle:

Recruitment and Selection

The College does wish to be a good employer and one of choice so that it can attract the best staff.

Part of this includes being positive about disability and supporting people with disabilities through the recruitment and selection process including the provision of any additional support to enable all candidates to participate fairly in the process, which promotes an inclusive culture supported through the College's Vision and Values.

Perth College – for the year ended 31 July 2019

The College also commits to ensuring that posts are advertised in a wide variety of places that attract all people and that the way in which external advertisements are worded is inclusive of all the population. Applicants are also asked during the recruitment process if they require the College to make any reasonable adjustments to support them in the recruitment process giving due regard to their particular aptitudes and abilities.

Professional Development

All staff will have the opportunity to participate in development activity that enables them to develop their qualifications and skills. They are also expected to participate in the Colleges Professional Review Scheme and undertake any staff development and training necessary for the full performance of their duties. The College also provides financial support for a number of staff to undertake qualifications relevant to their roles.

Redeployment and Occupational Health

The College is committed to ensuring that when staff become disabled during their employment with the College that we look at redeployment and training opportunities to retain their services within the College. There is regular use of our Occupational Health service on a management or self-referral process for mini health checks or full referrals to allow the College and staff to make informed decisions about any reasonable adjustments that we may be able to support. The College has also worked with Access to Work to ensure adaptive equipment is bought and training provided to support staff who have a disability under the Equality Act 2010.

Other employee matters

Equal Pay

The College reaffirms the principle that all members of staff receive equal pay for the same or broadly similar work, for work rated as equivalent and for work of equal value.

The College will ensure that all pay practice applies equally to all staff and is best practice. The College will communicate pay practice to help members of staff develop understanding of how pay is determined; undertake equal pay audits in accordance with any legal obligations; provide guidance and support to managers where they make decisions on pay and benefits for staff; and work within the National Bargaining Framework for colleges in Scotland including implementation of any agreed job evaluation scheme.

Work Life Balance

The College recognises that members of staff have priorities outside of their employment and that it is important for the wellbeing of all staff that there is balance between work and home life. The College also recognises that members of staff will have differing requirements at differing points in their working life and the range of

Perth College – for the year ended 31 July 2019

Family Friendly/Flexible Working Policies and Procedures aims to ensure that an appropriate balance between work and home life can be achieved throughout a member of staff's employment at the College.

Conduct

The College promotes and lives up to the principals within its Equality and Diversity Policy of: Treating people with respect; Encouraging, maintaining and promoting good relations; Applying policies, procedures and processes fairly and with due regard to every individual; Welcoming the differences between each person and value the contribution that they make to the cultural and social wellbeing of the College's working and learning environment.

Exit

Members of staff will be treated fairly in circumstances where there is a reduction in the need for certain types of roles and in the application of disciplinary procedures where dismissal may be an outcome.

Health and Safety

The Board of Management of Perth College UHI attaches the greatest importance to safeguarding the health, safety and welfare of staff, students, visitors and others who use the premises, and regards the promotion of health and safety measures as a mutual obligation for management and employees at all levels.

It is the commitment of the College to act within the requirements of the Health and Safety at Work etc Act 1974 and subsequent legislation, and to ensure that the health, safety and welfare of all staff, students, visitors and others who may be affected by our undertakings is safeguarded, so far as it reasonably practicable.

To meet these criteria, the College will:

- Regard legal compliance as the lowest acceptable standard of management with regard to health and safety;
- Identify hazards, assess risks and manage those risks;
- Provide appropriate information, instruction, training and supervision;
- Provide and maintain equipment and a working environment that are, so far as is reasonably practicable, without risks to health and safety;
- Consult with employee representatives on health and safety matters; and
- Provide adequate funding and resources to meet Policy needs.

In order to effectively manage Health and Safety, the College Board of Management devolves policies and procedures through the Principal and Chief Executive to the

Perth College – for the year ended 31 July 2019

Senior Management Team, to the Heads of Curriculum and Support Area Managers, and their staff, all of whom are responsible for managing Health and Safety.

The College requires that all staff, students, visitors and other co-operated in regarding safe working as a prime objective, by working within established procedures.

Overall responsibility for the practical implementation of this Policy lies with the College Principal and Chief Executive.

The College holds the Gold Award standard for Healthy Working Lives, evidencing our commitment to our staff.

The College's duty to consult on Health and Safety matters with trade unions and staff is structured through a Health and Safety Committee. The Committee meetings are scheduled four times over the curriculum year. These meetings are chaired by a Head of HR & Organisational Development and made up of the College Management, representatives of each recognised union and staff representatives.

Typical Health and Safety performance topics being discussed would include accident trends, training compliance, inspection reports and issues raised over the period covered.

The Health, Safety and Welfare Advisor ensures there are regular departmental audits with associated actions plans and these are all brought for review to the Health and Safety Committee.

Trade Unions

The College recognises two Trade Unions, EIS-FELA and UNISON. The relationships with each are governed by the appropriate Recognition and Procedure Agreements augmented with regular informal discussions with senior staff including the Head of HR & Organisational Development.

The Trade Unions were, during 2018/19, invited to take part in the Audit and F&GP committee of the Board. We are an active member of the Employer's Association to support National Bargaining dialogue, discussion and agreement. All of this highlights our commitment to partnership working and a no surprises relationship based on openness and transparency from management and the recognised Trade Unions.

Trade union officials

Number of employees who were relevant union officials during the relevant period	Full time equivalent employee number
6	5.86

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Percentage of time spent on facility time

Percentage	Number of employees
0%	
1-50%	6
51-99%	
100%	

Percentage of pay bill spent on facility time

Total cost of facility time:	£15,934
Total pay bill:	£17,705,607
Percentage of the total pay bill spent on facility time:	0.09%

Paid trade union activities

Time spent on trade union activities as a percentage of total paid facility time hours:	100%
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Employment Issues

The College commits itself to continue to offer opportunities for staff whether this is through training, career development opportunities including secondments and ensuring there is transparency in relation to equal pay and equality of opportunity. A new Equality, Diversity and Inclusion Advisor was appointed to bridge the gap in the area of equality and diversity and her focus since appointment in the summer has been to ensure all statutory reporting requirements are delivered. These are all in progress and the College hopes to deliver them soon.

The College has a published commitment to equal pay within this report which reaffirms the principle that all members of staff receive equal pay for the same or broadly similar work, for work rated as equivalent and for work of equal value. To achieve this, the College commits to:

- Ensure that all pay practice applies equally to all staff and is best practice;
- Communicate pay practice to help members of staff develop understanding of how pay is determined;
- Undertake equal pay audits in accordance with any legal obligations;
- Provide guidance and support to managers where they make decisions on pay and benefits for staff; and
- Work within the National Bargaining Framework for colleges in Scotland including implementation of any agreed job evaluation scheme.

The College also has a commitment to equality and diversity demonstrated by the principles of adopted by the College in this regard which are:

Perth College – for the year ended 31 July 2019

- Treating people with respect;
- Encouraging, maintaining and promoting good relations;
- Applying policies, procedures and processes fairly and with due regard to every individual;
- Welcoming the differences between each person and value the contribution that they make to the cultural and social wellbeing of the College's working and learning environment; and

The College also has an Equality, Diversity and Inclusivity Team Committee which monitors progress on equality matters and is a forum for consultation about matters which affects staff and students.

The majority of the College's staff are female (59%) with men representing 41% of our staff.

The College has a Professional Review process which includes a CLPL element to support the development of both Academic and Professional services staff, and an allocated CPD budget to support other professional development activities. The College has a robust framework of policies and procedures which support the employment lifecycle. These include for recruitment, induction, to be family friendly, encourage flexible working, discipline and grievance issues, promote health and wellbeing, absence, capability and exit.

Perth College – for the year ended 31 July 2019

Corporate Governance Report

The purpose of the Corporate Governance report is to explain the composition and organisation of the institution's governance structures and how they support the achievement of institutional objectives.

The Corporate Governance report includes:

- a Directors' Report
- a Statement of Responsibilities of the Members of the Board of Management
- a Governance Statement

Directors Report

The Board of Management

The members who served on the Board of Management during the year and up to the date of signing the financial statements were as follows:

Name	Date of Appointment	Date of Resignation	Status of Appointment	Committees Served
Brian Crichton	15 June 2016 Appointed as Chair 20 August 2018		Independent Member	Chairs' (chair); Finance & General Purposes; Remuneration;
Grant Myles	18 December 2013 Appointed as Chair 1 December 2014	17 August 2018	Independent Member	
Andrew Comrie	24 September 2018		Independent Member	Academic Affairs; Audit
Jim Crooks	15 June 2016		Independent Member	Audit (chair);
Sheena Devlin	14 January 2019		Independent Member	Academic Affairs;
Dr Harold Gillespie	20 March 2013	30 June 2019	Independent member	Academic Affairs; Finance & General Purposes
Sharon Hammell	15 June 2016		Independent Member	Air Service Training Ltd; Chairs' Engagement (chair);
Deborah Hutchison	1 November 2017		Independent Member	Engagement; Finance and General Purposes
Ann Irvine	15 June 2017		Independent Member	Audit; Engagement

Perth College – for the year ended 31 July 2019

Name	Date of Appointment	Date of Resignation	Status of Appointment	Committees Served
David Littlejohn	18 December 2013		Independent Member	Engagement; Chairs'; Finance & General Purposes (chair); Remuneration (chair)
Lynn Oswald	1 November 2017		Independent Member	Audit; Engagement
Craig Ritchie	24 September 2018		Independent Member	Air Service Training Ltd Finance & General Purposes
Charlie Shentall	15 June 2017		Independent Member	Air Service Training Ltd (chair); Chairs
Anna Zvarikova	1 November 2017		Independent Member	Audit
John Dare	14 June 2018		Staff Member	Engagement
Declan Gaughan	21 September 2018		Staff Member	Academic Affairs
Prince Honeysett	1 July 2017	30 June 2019	Student Member	Academic Affairs; Engagement
Dr Margaret Cook	1 August 2017		Principal and Chief Executive	Academic Affairs (chair); Air Service Training Ltd; Audit; Chairs'; Engagement; Finance & General Purposes
Amy Studders	1 July 2019		Student Member	President
Debbie Das Chaudry	1 July 2019		Student Member	VP Activity & Welfare

Board Member – Committee Attendance

Name	Board	Academic Affairs	AST	Audit	Chairs	Engagement	F&GP	Remuneration
Brian Crichton	4/4				3/3		4/4	3/3
Grant Myles								
Andrew Comrie	3 /4	3/3		3/3				
Jim Crooks	4/4			4/4	3/3			3/3
Sheena Devlin	2/2	1 /2						
Dr Harold Gillespie	3 /4	2 /3					1 /4	
Sharon Hammell	4/4		2/4		3/3	4/4		3/3

Perth College – for the year ended 31 July 2019

Name	Board	Academic Affairs	AST	Audit	Chairs	Engagement	F&GP	Remuneration
Deborah Hutchison	4/4					2 /3	3 /4	
Ann Irvine	4/4			3 /4		4/4		
David Littlejohn	2/4				2 /3	2/4	4/4	2 /3
Lynn Oswald	3 /4			3 /4		3 /4		
Craig Ritchie	3 /4		3/3				4/4	
Charlie Shentall	4/4		4/4		3/3	1/1		3/3
Anna Zvarikova	1 /4		1 /2	2/4				
John Dare	3 4					3 /4		
Declan Gaughan	3 /4	1 /3						
Prince Honeysett	4/4	3/3				4/4		
Dr Margaret Cook	4/4	2 /3	4/4		3/3	3 /4	4/4	

It is the Board of Management's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. The Board of Management complies with the internal control guidance published by the Turnbull Committee and the good practice in the Guide for Board Members in the College Sector 2015 issued by Scotland's Colleges.

The Board of Management is provided with regular information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Board of Management meets at least four times a year.

Perth College – for the year ended 31 July 2019

Full minutes of all Board and Board sub-Committee meetings, except those deemed to be confidential by the Board, are available on the College website or from the Clerk to the Board at:

Perth College
Crieff Road
Perth PH1 2NX

Register of Members Interest

The Clerk to the Board maintains a register of financial and personal interests of the Board members and Senior Management Team. The Register is available for inspection at the above address or on the College website:

<https://www.perth.uhi.ac.uk/about-us/college-management-structure/meet-the-board/register-of-interests/>

All Board members are able to take independent professional advice in furtherance of their duties at the College's expense and have access to an independent Clerk, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Board as a whole.

Formal agendas, papers and reports are supplied to Board members in a timely manner, prior to meetings. Briefings are also provided on an ad hoc basis.

The Board of Management has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Board of Management considers that each of its non-executive members is independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgment.

Board members are required to self-evaluate collectively as Board and as individually as Board members. The self-evaluation process includes consideration of the performance of the Chair and individual Committee Chairs and of the collective effectiveness of the Board of Management, and individual reflection on their adherence to the Nine Principles' of Public Life.

There is a clear division of responsibility in that the roles of the Chair and Principal are separate.

Information Management

There were no significant data breaches during the year.

Perth College – for the year ended 31 July 2019

Appointments to the Board of Management

From 1 August 2014, the authority for appointments to the Board of Management of Perth College resides with the University of the Highlands and Islands and must be made in accordance with Ministerial Guidance on Board Appointments.

The Board of Management ensures that a process is in place to provide appropriate induction training to new Board of Management members and new Board members are expected to undertake induction training.

Members of the Board of Management are appointed for an initial term of office not exceeding four years and may be reappointed.

Statement of Responsibilities of the Members of the Board of Management

The Board of Management are required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992 the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for ensuring that proper accounting records are maintained which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions, the relevant Government Financial Reporting Model (FReM) and other relevant accounting standards.

In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board, through its Chief Executive, the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In preparing the financial statements, the Board of Management is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on a going concern basis, unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

Perth College – for the year ended 31 July 2019

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council, including those derived through the Regional Strategic Board, are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud; and
- secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative areas;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance Committee; and
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management, and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Approved by order of the member of the Board of Management on 20 February 2020 and signed on its behalf by:

Dr Brian Crichton
Chair

Perth College – for the year ended 31 July 2019

Governance Statement

Statement of Corporate Governance and Internal Control

From 1 August 2014, Perth College was assigned to the University of the Highlands and Islands (UHI) as its Regional Strategic Body (RSB) and the provisions of the Post-16 Education (Scotland) Act 2013 commenced for the College. As an assigned college, the Board is accountable to the RSB.

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the main principles of the 2016 Code of Good Governance for Scotland's Colleges. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

The College complies with all the principles of the 2016 Code of Good Governance for Scotland's Colleges, with the exception of two weaknesses noted in the action plan below. It has complied throughout the year ended 31 July 2019.

The Board conducts its business through a number of committees. Each committee has formally constituted terms of reference. These committees include: Finance and General Purposes Committee; Audit Committee; Academic Affairs Committee; Engagement Committee; Capital Projects Committee (disbanded after the completion of the Academy of Sport and Wellbeing); Chairs' Committee; and a Remuneration Committee. In addition, the Board of Management holds development planning days and training evenings during the course of the year for the purposes of training, self-evaluation and development. The Board is supported by an Independent Clerk.

Audit Committee

The Audit Committee comprises at least four non-executive members of the Board of Management (excluding the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Board of Management.

The Audit Committee meets four times a year and provides a forum for reporting by the College's external and internal auditor, who have access to the Committee for independent discussion, without the presence of College management.

The Audit Committee advises the College on the appointment of the internal auditor and the auditor's remuneration. The Audit Committee establishes the College's risk tolerance and monitors risk.

The College's internal auditor monitors the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to management and the Audit Committee.

Perth College – for the year ended 31 July 2019

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to the Audit Committee to ensure such recommendations have been implemented.

The Audit Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council and Audit Scotland as they affect the College's business and monitors adherence to the regulatory requirements.

Finance and General Purposes Committee (“the Finance Committee”)

The Finance Committee comprises four non-executive members of the Board of Management and includes the Principal. The Committee operates in accordance with written terms of reference approved by the Board of Management.

The Finance Committee meets at least four times a year and, among other matters, recommends to the Board of Management the College's annual revenue and capital budgets and monitors performance in relation to approved budgets.

The Finance Committee monitors the College's financial and business perspectives. It approves all key financial decisions, approves the annual budget, considers the financial statements and recommends for approval, oversees the system of financial control and delegated authority. It also considers any other matters relevant to the financial duties of the Board including estates strategy.

Remuneration Committee

The Remuneration Committee comprises of the Chair, the Vice Chair and the Chair of each of the Standing Committees. The committee is responsible for making recommendations to the Board on the remuneration and benefits of the Principal and the Clerk to the Board.

Details of the remuneration of senior post-holders for the year ended 31 July 2019 are set out in Note 7 to the financial statements.

Corporate Strategy

The Board of Management is responsible for the overall strategic development of the College and is the guardian of its vision and values. Strategic development takes place at an annual Board of Management away day, with the College's Senior Management Team. This is supported by horizon scanning and futures work and has led to the development of strategic plans underpinned by operational plans. Progress against the agreed strategic priorities in the plan is monitored through a balanced scorecard approach by the appropriate Board committees on a regular basis.

Perth College – for the year ended 31 July 2019

Scope of Responsibility

The Board of Management is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board of Management has delegated the day-to-day responsibility to the Principal, as Chief Executive Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets of Perth College including those derived from the RSB. The Principal is also responsible for reporting to the Board of Management any material weaknesses or breakdowns in internal control.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Perth College for the year ended 31 July 2019 and up to the date of approval of the annual report and financial statements.

Principal Risks and Uncertainties

The College's Board of Management is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Senior Management Team monitors key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms embedded within the operational units and reinforced by risk awareness in operational planning.

The Senior Management Team and the Audit Committee also receive regular reports from Internal Audit and Health, Safety and Environmental monitoring functions that include recommendations for improvement. Internal Audit concentrates on areas of key activities determined by a risk analysis and in accordance with the annual internal audit plan approved and amended by the Audit Committee.

The internal auditor has direct access to the Chair of the Audit Committee and issues an annual report with an opinion of the adequacy, reliability and effectiveness of the College's internal control system.

Perth College – for the year ended 31 July 2019

The Audit Committee considers risk at each Committee Meeting and receives a copy of the College Strategic Risk Register which is updated quarterly by the College Senior Management Team.

The Board of Management receive reports thereon from the Audit Committee, the emphasis being on obtaining the relevant degree of assurance and not merely reporting by exception.

The Board of Management is of a view that there is an ongoing process for identifying, evaluating and managing the College's significant risks that has been in place throughout the year ended 31 July 2019 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Audit Committee and accords with the Turnbull guidance on internal control, as applicable to the further education sector.

The Risk and Control Framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Board of Management;
- Regular reviews by the Board of Management of periodic and annual financial reports which indicate financial performance against forecasts;
- Setting targets to measure financial and other performance;
- Clearly defined capital investment control guidelines; and
- The adoption of formal project management disciplines, where appropriate.

The College appoints an Internal Audit service, which operates in accordance with the requirements of the Scottish Funding Council's mandatory requirements.

The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and internal audit plans are based on this analysis.

The analysis of risks and the internal audit plans are endorsed by the Board of Management on the recommendation of the Audit Committee.

The Internal Auditor provides the Board of Management with a report on internal audit activity within the College. These reports include the Internal Auditor's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

The internal auditor has direct access to the Chair of the Audit Committee and issues an annual report with an opinion of the adequacy, reliability and effectiveness of the College's internal control system.

Perth College – for the year ended 31 July 2019

The college's Internal Auditors gave the following opinion in their Annual Report to the Board of Management and Principal on the Provision of Internal Audit Services for 2018/19 –

“In our opinion, with the exception of the issues highlighted in paragraphs 1.11, 1.12 and 1.13, the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2018/19 and in prior years since our first appointment in 1998/99.”

We summarise the findings of the paragraphs referred to in the opinion of the Internal Auditor below, and note that an action plan is in place to address all areas of concern:

Paragraph 1.11 – The Internal Audit Report on HR and Payroll Systems was graded as 'Requires Improvement'. Audit testing identified a significant number of issues regarding payroll transactions, with some staff being underpaid and others being overpaid.

Paragraph 1.12 – The same report highlighted payroll errors relating to an under payment of National Insurance contributions over the three preceding financial years and focused on staff with more than one employee pay number. A voluntary disclosure to HMRC has been undertaken with a provision included within the financial statements.

Paragraph 1.13 – It was noted by internal audit that limited progress had been made in implementing recommendations still outstanding at the time of 2018/19 Follow Up reviews. An action plan is being drawn up to address outstanding internal audit recommendations.

Review of Effectiveness

As Accountable Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control is informed by:

- The work of the internal auditor.
- The work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework.
- The comments made by the College's external auditor in their management letters and other reports.

The Board of Management has been advised on the implications of the review of the effectiveness of internal control by the Audit Committee, which oversees the work of the internal auditor.

Perth College – for the year ended 31 July 2019

The Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments.

The Senior Management Team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control.

The Audit Committee considers risk at each Committee meeting and receives a copy of the College Strategic Risk Register which is updated quarterly by the College Senior Management Team. The Board of Management receives reports thereon from the Audit Committee, the emphasis being on obtaining the relevant degree of assurance and not merely reporting by exception.

At its December 2019 meeting, the Board of Management carried out the annual assessment for the year ended 31 July 2019 by considering documentation from the Senior Management Team and internal audit, and taking account of events since 31 July 2019.

Significant Control Issues/Weaknesses

As part of the preparation of this statement, the College has identified a number of areas of control weakness that applied during 2018/19. The areas are identified in the table below and the action plan will be monitored by the Audit Committee to ensure that each issue is addressed as a matter of urgency.

Area	Issue	Action
Payroll	During the year, it has been established that there has been an underpayment of National Insurance contributions over a number of years. As a result a provision of £250k has been made in the 2018/19 financial statements. In addition the college has made a voluntary disclosure to HMRC.	The College is rectifying the anomalies and will work with impacted staff.

Perth College – for the year ended 31 July 2019

Area	Issue	Action
Payroll	As part of follow up work commissioned by the College, internal audit has identified that there may have been overpayments of pension contributions over a number of years.	The College has engaged with external advisors to establish the value and extent of these likely overpayments and any associated errors in tax payments. The intention is then to provide communication to affected staff and to provide support where recovery of any overpayment becomes necessary.
Settlement Agreements	Two severance arrangements were made during 2018/19 in respect of lieu of notice. While these settlement agreements incurred no cost to the College, we have identified that there was a requirement to report both to UHI as the RSB, and to the Scottish Funding Council.	The College reported these cases retrospectively to both UHI and SFC. Policies will be reviewed and updated to ensure that no omissions of this nature are made in the future.
Procurement	During the financial year, the College has identified a number of procurement weaknesses, including: <ul style="list-style-type: none"> - Contracts that were awarded on the basis of a non-competitive quote without approval of the RSB; - Failure to retender significant contracts on a timely basis; and - A lack of purchase orders. 	SMT have implemented a control system which includes: <ul style="list-style-type: none"> • APUC contract in place • Revision of Procurement Strategy and Procedures • Contracts register enabling forward planning of contract values, tenders and renewals • Greater use of APUC Frameworks • Implementing a consistent purchase order system • Retendering of non-compliant contracts • Discussions with RSB on rationales for exemptions to tender

Perth College – for the year ended 31 July 2019

Area	Issue	Action
Deferred Income	The College has identified that record keeping and communication across departments has been ineffective. In some cases this has led to errors in accounting for the release of income.	<p>An improved contract management process for recording and monitoring progress against performance milestones is underway.</p> <p>Increased engagement and communication between Finance and College teams to plan and monitor income and expenditure.</p>
Equalities Mainstreaming	The College has identified a delay in publishing the Equality and Outcomes Mainstreaming Report.	These will be completed by March 2020.
Code of Governance for Scotland's Colleges	As part of its self-assessment, the College has noted that it has not fully complied with all aspects of the 2016 Code of Good Governance for Scottish Colleges.	<p>In the opinion of the Board of Management, the College continues to comply with the provisions of the 2016 Code of Good Governance for Scotland's Colleges, with the exception of C22 – the requirement for the Board to comply with all aspects of the Financial Memorandum, specifically in relation to reporting non-compliance of matters of Procurement and settlement agreements and C27 - . the requirement for the Board to comply with the nationally agreed college sector Staff Governance Standard.</p> <p>The College is taking action to address these and expects to be fully compliant by March 2020.</p>

Perth College – for the year ended 31 July 2019

Area	Issue	Action
Compliance with the Accounts Direction	Under the Accounts Direction, the College is required to submit the annual report and accounts to the Auditor General for Scotland by 31 December 2019. Due to a combination of factors, including the control weaknesses identified above, along with staff turnover we were unable to produce the Financial Statements within this timeframe.	As part of an overall review of the Finance Team structure, we will develop a revised approach and timetable for the production of financial statements.

Going Concern

The Board of Management confirms that they consider the College to be a going concern as described in the Code of Good Governance for Scotland's Colleges 2016 (section C.1.3) and that the financial statements have been prepared on this basis.

Parliamentary Accountability Report

We have no matters to report.

Approved by order of the members of the Board of Management on 20 February 2020 and signed on its behalf by:

Dr Brian Crichton
Chair

Dr Margaret Cook
Principal and Chief Executive

Independent auditor's report to the members of the Board of Management of Perth College, the Auditor General for Scotland and the Scottish Parliament

[To be inserted]

Perth College
Consolidated and College Statements of Comprehensive Income for the year ended
31 July 2019

	Notes	Year ended 31 July 2019		Year ended 31 July 2018	
		Group £000	College £000	Group £000	College £000
Income					
Funding council grants	2	15,883	15,883	14,669	14,669
Tuition fees and education contracts	3	6,521	4,566	5,629	3,897
Other grants and contracts	4	652	652	125	125
Other income	5	4,066	4,346	3,602	3,832
Investment income	6	13	13	3	3
Total Income		27,135	25,460	24,028	22,525
Expenditure					
Staff costs	7	18,957	17,909	17,774	16,719
Other operating expenses	9	7,436	6,840	6,596	6,185
Depreciation	13	1,058	1,031	1,081	1,049
Interest and other finance costs	10	10	5	27	23
Total Expenditure		27,461	25,785	25,478	23,975
Surplus/(Deficit) before tax		(326)	(325)	(1,450)	(1,450)
Taxation	11		-	(1)	-
Surplus/(Deficit) for the year	12	(326)	(325)	(1,451)	(1,450)
Unrealised surplus on revaluation of land and buildings and Assets held or resale	33	55	55	4,003	4,003
Actuarial gain/(loss) in respect of pension schemes	23	(1,712)	(1,712)	7,075	7,075
Total Comprehensive Income / (Expenditure) for the year		(1,983)	(1,982)	9,627	9,628

The Statement of Comprehensive Income is in respect of continuing activities.

The Statement of Comprehensive Income is prepared under the FE/HE SORP. Colleges are also subject to Central Government accounting rules but the FE/HE SORP does not permit colleges to include Government non-cash allocations for depreciation in the Statement of Comprehensive Income. Note 31 provides detail of the adjusted operating position on a central government accounting basis and presents the underlying surplus for the year.

Perth College

Consolidated and College Statement of Changes in Reserves for the year ended 31 July 2019

Group	Income and expenditure reserve £000	Revaluation reserve £000	Total £000
Balance at 1st August 2017	2,321	14,307	16,628
Surplus from the income and expenditure account	(1,450)	-	(1,450)
Impact of Revaluation		4,001	4,001
Other comprehensive (expenditure) / income	7,075	-	7,075
Transfers between revaluation and income and expenditure reserves	359	(359)	-
	<u>5,984</u>	<u>3,642</u>	<u>9,626</u>
Balance at 31st July 2018	<u>8,305</u>	<u>17,949</u>	<u>26,254</u>
Surplus from the income and expenditure account	(327)	-	(327)
Impact of Revaluation	-	55	55
Other comprehensive (expenditure) / income	(1 712)	-	(1 712)
Transfers between revaluation and income and expenditure reserves	359	(359)	-
	<u>(1 680)</u>	<u>(304)</u>	<u>(1 984)</u>
Balance at 31 July 2019	<u>6,625</u>	<u>17,645</u>	<u>24,270</u>
College	£000	£000	£000
Balance at 1st August 2017	2,321	14,307	16,628
Surplus from the income and expenditure account	(1 450)	-	(1 450)
Impact of Revaluation		4,003	4,003
Other comprehensive (expenditure) / income	7,075	-	7,075
Transfers between revaluation and income and expenditure reserves	359	(359)	-
	<u>5,983</u>	<u>3,644</u>	<u>9,627</u>
Balance at 31st July 2018	<u>8,304</u>	<u>17,951</u>	<u>26,255</u>
Deficit from the income and expenditure account	(327)	-	(327)
Impact of Revaluation	-	55	55
Other comprehensive (expenditure) / income	(1 712)	-	(1 712)
Transfers between revaluation and income and expenditure reserves	359	(359)	-
	<u>(1 680)</u>	<u>(304)</u>	<u>(1 984)</u>
Balance at 31 July 2019	<u>6,624</u>	<u>17,647</u>	<u>24,271</u>

Perth College
Consolidated and College Balance Sheets as at 31 July 2019

	Notes	Year ended 31 July 2019		Year ended 31 July 2018	
		Group	College	Group	College
		£000	£000	£000	£000
Non current assets					
Tangible fixed assets	13	35,617	35,485	36,533	36,375
Investments	14	-	20	-	20
		35,617	35,505	36,533	36,395
Current assets					
Stock		16	13	19	15
Trade and other receivables	15	1,649	1,623	1,194	971
Assets held for sale	16	230	230	-	-
Cash and cash equivalents	17	2,756	2,033	2,188	1,522
		4,651	3,899	3,401	2,507
Less: Creditors - amounts falling due within one year	18	(4,690)	(3,829)	(5,528)	(4,500)
Net current (liabilities)		(39)	70	(2,128)	(1,993)
Total assets less current liabilities		35,578	35,575	34,405	34,402
Creditors - amounts falling due after more than one year	19	(5,374)	(5,374)	(5,268)	(5,267)
Provisions					
Pension provision	21	(5,683)	(5,683)	(2,883)	(2,883)
Other Provisions	22	(250)	(250)	-	-
Total net assets		24,271	24,268	26,254	26,252
Unrestricted Reserves					
Revaluation reserve	34	17,645	17,645	17,949	17,949
Pension Reserve	21	(5,683)	(5,683)	(2,883)	(2,883)
Income and expenditure reserve	35	12,309	12,306	11,188	11,186
Total unrestricted reserves		24,271	24,268	26,254	26,252

The financial statements on pages 47 to 76 were approved by the Board of Management on 20 February 2020 and were signed on its behalf by:

B Crichton - Chair

Dr M Cook - Principal and Chief Executive

Perth College
Consolidated Statement of Cash Flows for the year ended 31 July 2019

	Notes	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Cash flow from operating activities			
Surplus / (Deficit) for the year		(326)	(1 451)
Adjustment for non-cash items			
Depreciation	13	1,058	1,081
Deferred capital grants released to income	2	(203)	(197)
(Increase) / Decrease in stocks		3	(1)
Decrease / (Increase) in debtors	15	(455)	(22)
(Decrease) / Increase in creditors	18, 19	(294)	787
Add back deferred cap grant			
(Decrease) in provisions			-
Pension costs less contribution payable		1 088	979
Taxation			1
Adjustment for investing or financing activities			
Interest receivable	6	(13)	(3)
Interest payable	10	10	27
Taxation paid		-	-
Net cash flow from operating activities		868	1,201
Cash flows from investing activities			
Deferred capital grant	23	(318)	
Payments made to acquire fixed assets	13	318	
		0	-
Cash flows from financing activities			
Interest received	6	13	3
Interest paid	10	(10)	(27)
Repayments of amounts borrowed	20	(300)	(400)
		(297)	(424)
Increase in cash and cash equivalents in the year	17	568	777
Cash and cash equivalents at beginning of the year		2,188	1,411
Cash and cash equivalents at end of the year		2,756	2,188

Notes to the Accounts for the year ended 31 July 2019

1. Statement of Accounting Policies and estimation techniques

Basis of preparation

The financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the Accounts Directions issued thereunder by the Scottish Funding Council, which requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), and the relevant Government Financial Reporting Model (FReM).

The statements have also been prepared in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS102).

The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

Basis of accounting

The financial statements have been prepared under the historic cost convention.

Basis of consolidation

The consolidated accounts include the financial statements of the College and its subsidiary undertaking made up to 31 July 2019. Intra group sales and profits are eliminated fully on consolidation.

Non-current assets - Tangible fixed assets

Land and buildings

Land and buildings are measured using the revaluation model and assets are revalued to fair value. Where appropriate Depreciated Replacement Cost has been used as a measure of fair value for land and buildings otherwise Market Value will be used. The college has a policy of ensuring a full revaluation takes place at least every five years such that the fair value is not materially different to the current value. In line with the FReM an annual indexation exercise will be completed. Depreciation and impairment losses are subsequently charged on the revalued amount.

Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. Government grants are credited to a deferred capital grant account and are released to the Statement of Comprehensive Income over the expected useful economic life of the related asset on a basis consistent with the depreciation policy. Non-government grants are released to income when performance related conditions have been met. The deferred income is allocated between creditors due within one year and those due after more than one year.

Notes to the Accounts for the year ended 31 July 2019

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable

Assets under construction

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July 2019. They are not depreciated until they are brought into use.

Assets held for sale

Assets held for sale are accounted for at fair value less costs of disposal and disclosed separately within current assets. They are not depreciated.

Equipment

Equipment purchased as part of a capital building project is capitalised and depreciated over its useful economic life. Individual items of equipment purchased with values greater than £1,000 are capitalised at cost if deemed to have a minimum economic useful life of 3 years and not regarded as a repair to existing assets. Capitalised equipment is depreciated on a straight line basis over its useful economic life as follows:

Motor vehicles and general equipment	10%, 25% and 33% per year
Computer equipment	20% and 25% per year

Where equipment is acquired with the aid of specific government grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the Statement of Comprehensive Income over the expected useful economic life of the related equipment.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to the College, in which case it is capitalised and depreciated on the relevant basis.

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred.

Leased assets

Rental costs in respect of operating leases are charged to expenditure at the cost incurred during the year. Leasing arrangements which transfer to the College

Notes to the Accounts for the year ended 31 July 2019

substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Statement of Comprehensive Income in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets. Assets held under hire purchase contracts, which have the characteristics of finance leases, are depreciated over their useful economic lives.

Investments

Fixed asset investments are carried at historical cost less any provision for a permanent diminution in their value.

Recognition of Income

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs. Income from tuition fees is recognised in the period to which it relates. Income from donations is included to the extent of the relevant expenditure incurred during the year. Recurrent grants from the SFC are recognised in the period to which they relate.

Capital grants from SFC or other government bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets, under the accrual method as permitted by FRS102.

Grants from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Accounting for post-employment benefits

The College participates in 2 multi-employer defined benefit pension schemes.

Teaching staff may join the Scottish Teachers' Superannuation Scheme (STSS), which is administered by the Scottish Public Pensions Agency (SPPA). Perth College is unable to identify its share of the underlying assets and liabilities of the STSS on a consistent and reasonable basis and therefore, as permitted by FRS102, applies multi-employer exemption and accounts for its participation in the STSS as if it were a defined contribution scheme. The contributions are determined by qualified actuaries on the basis of periodic valuations and are recognised in the accounting periods in which they arise.

Notes to the Accounts for the year ended 31 July 2019

Administrative and support staff may join the Local Government Pension Scheme (LGPS) which is administered by Dundee City Council. The fund is a defined benefit scheme, providing benefits based on a career average revalued earnings (CARE) basis, which is contracted out of the State Earnings-Related Pension Fund.

The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. Qualified actuarial valuations are obtained annually and are updated at each balance sheet date.

The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

Actuarial gains and losses are recognised immediately in other comprehensive income.

Short term employment benefits

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

Stocks

Stocks are items held for resale and are stated at the lower of their cost or net realisable value. Where necessary provision is made for obsolete, slow moving and defective stocks.

Cash and Cash Equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

Financial Liabilities and Equity

Notes to the Accounts for the year ended 31 July 2019

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All loans, investments and short term deposits held by the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the year.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

The College's subsidiary company, Air Service Training (Engineering) Limited is subject to corporation tax and VAT in the same way as any other commercial organisation. Tax relief is available on Air Service Training (Engineering) Limited's profits that are gift aided to the College.

Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred by the balance sheet date with certain limited exceptions.

Notes to the Accounts for the year ended 31 July 2019

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the institution has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

Revaluation reserve

Surpluses arising on the revaluation of the College's properties are transferred to the revaluation reserve. Additional depreciation charged on the revalued amount of these assets is transferred from revaluation reserve to the Income and Expenditure reserve together with any surplus or deficit on disposal.

Agency arrangements

The College acts as an agent in the collection and payment of certain Student Support Funds. These funds are excluded from the Statement of Comprehensive Income, and movements have been disclosed in the notes to the accounts. Where the College has more discretion in the manner in which specific funds are disbursed, and these funds do not meet the definition of agency funds, the income and expenditure relating to those funds are shown in the College Statement of Comprehensive Income.

Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, management have made the following judgements:

- Determine whether there are indicators of impairment of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- Tangible fixed assets

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending

Notes to the Accounts for the year ended 31 July 2019

on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- Local Government Pension Scheme

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 23, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2017 has been used by the actuary in valuing the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

- Post Balance Sheet Events

There are no Post Balance Sheet Events.

Perth College
Notes to the Accounts for the year ended 31 July 2019

2 Funding Council grants

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
SFC FE recurrent grant (including fee waiver)	7,678	7,678	7,073	7,073
Funding for increased STSS contributions				
University of the Highlands and Islands recurrent grant	6,301	6,301	6,129	6,129
Financial security funding				
FE Childcare funds (note 30)	433	433	489	489
Release of government capital grants	203	203	197	197
Other SFC grants	520	520	427	427
Other University of the Highlands and Islands grants	748	748	354	354
	15,883	15,883	14,669	14,669

3 Tuition fees and education contracts

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
UK Higher Education students	3,205	3,205	3,185	3,185
Non-EU students	-	-	-	-
UK Further Education students	452	452	487	487
	3,657	3,657	3,672	3,672
Management of Skills Development Scotland contract	910	910	225	225
Other contracts				
Tuition fees of subsidiary	1,954	-	1,732	-
	6,521	4,567	5,629	3,897

4 Other grants and contracts

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Research grants	652	652	125	125
European Commission	-	-	-	-
	652	652	125	125

Perth College
Notes to the Accounts for the year ended 31 July 2019

5 Other income

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Residences and catering	1,104	1,104	1,081	1,081
Other income generating activities	1,463	1,463	1,596	1,596
Other income	1 499	1 779	925	948
	4,066	4,346	3,602	3,625

6 Investment income

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Interest receivable	13	13	3	3
	13	13	3	3

7 Staff costs

The average monthly number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents, was:

	Year ended 31 July 2019 Number of staff	Year ended 31 July 2018 Number of staff
Teaching departments - teaching staff	159	134
Teaching departments - other staff	48	100
Teaching support services	32	16
Administration and central services	101	96
Premises	29	26
Subsidiary (AST) staff	27	23
Other	29	26
	425	421

Analysed as:

Staff on indefinite contracts	330	353
Staff on temporary contracts	95	68
	425	421

Perth College
Notes to the Accounts for the year ended 31 July 2019

7 Staff costs (continued)

Staff costs for these persons:

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Wages and salaries	14,234	13,317	13,548	12,743.84
Social security costs	1,578	1,483	1,243	1,169.22
Other pension costs	3,145	3,108	2,983	2,805.94
	18,957	17,908	17,774	16,719
Teaching departments - teaching staff	9,529	9,529	8,957	8,957
Teaching departments - other staff	1,421	1,421	1,452	1,452
Teaching departments - AST staff	601		611	
Teaching support services	1,916	1,468	1,387	1,387
Administration and central services	2,260	2,261	2,392	1,948
Premises	853	853	1,137	1,137
Other income generating activities	829	829	859	859
Other income	460	460	-	-
Charge in relation to defined benefit pension	1,088	1,088	979	979
	18,957	17,909	17,774	16,719
Analysed as:				
Staff on indefinite contracts	13,875		14,602	
Staff on temporary contracts	3,994		2,193	
Charge in relation to defined benefit pension	1,088		979	
	18,957		17,774	

The number of staff, including senior post-holders and the principal, who received emoluments in the following ranges was:

£'000	Year ended 31 July 2019		Year ended 31 July 2018	
	Number of Senior post- holders	Number of Other staff	Number of Senior post- holders	Number of Other staff
60-70	1	4	-	-
70-80	2	-	-	4
80-90		-		-
100-110	1	-	1	-
	4	4	1	4

8 Senior post-holders' emoluments

Senior post-holders are defined as the principal (or chief executive) and holders of the other senior posts whom the board have selected for the purposes of the articles of government of the institution relating to the appointment and promotion of staff who are appointed by the board of governors

	Year ended 31 July 2019 Number	Year ended 31 July 2018 Number
The number of senior post-holders including the Principal was:	5	4
	College £000	College £000
Senior post-holders' emoluments are made up as follows:		
Salaries	380	224
Pension contributions	60	38
	<u><u>440</u></u>	<u><u>262</u></u>

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Salary	<u>108</u>	<u>105</u>
	<u><u>108</u></u>	<u><u>105</u></u>
Pension contributions	<u>18</u>	<u>18</u>

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Scottish Teachers Superannuation Scheme or Tayside Superannuation Scheme and are paid at the same rate as for other employees.

The members of the Board of Management other than the Principal and the staff members did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

No pay award was paid during the year to senior post holders, including the Principal and other senior management staff. No bonuses were paid or payable to senior post holders for 2018/19.

Perth College
Notes to the Accounts for the year ended 31 July 2019

9 Other operating expenses

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Teaching departments	1,157	934	898	689
Teaching support services	674	674	467	467
Administration and central services	1,620	1,620	1,456	1,450
Premises costs	1,527	1,300	1,300	1,611
Other income generating activities	539	394	413	413
Catering and residence operations	1,156	1,156	1,065	1,065
Other income	330	330		
Other expenses - Childcare Grant	433	433	489	489
	7,436	6,841	6,088	6,184

Other operating expenses include:

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Auditors' remuneration:				
external audit	25	20	17	17
internal audit	17	12	13	13
other services from external audit	5	-	2	2
other services from internal audit	-	-	-	-
Hire of plant and machinery - operating leases	281	281	95	95
Hire of other assets - operating leases	160	54	164	55

10 Interest payable

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
On bank loans, overdrafts and other loans: Repayable within 5 years, not by instalments	10	5		27

11 Taxation

The College is not liable for any corporation tax arising out of its activities during the year (2018 - £nil).

12 (Deficit)/Surplus on continuing operations for the year

The (Deficit)/Surplus on continuing operations for the year is made up as follows:

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
College's (Deficit)/Surplus for the year	(566)	(1,657)
(Deficit)/Surplus generated by subsidiary undertaking	241	206
	(325)	(1,451)

Perth College
Notes to the Accounts for the year ended 31 July 2019

13 Tangible Fixed Assets (Group only)

	Freehold Land and Buildings	Equipment	Total
	£000	£000	£000
Cost or Valuation			
At 1 August 2018	37,207	5,030	42,237
Additions	-	318	318
Disposals	(207)	-	(207)
At 31 July 2018	37,000	5,348	42,348
Depreciation			
At 1 August 2018	1,002	4,702	5,704
Charge for year	987	72	1,059
Revaluation	(32)	-	(32)
At 31 July 2019	1,957	4,774	6,731
Net book value			
At 31 July 2018	35,043	574	35,617

Land and buildings were revalued during the year ended 31 July 2018 by J & E Shepherd (Chartered Surveyors). Other tangible fixed assets inherited from the Local authority at incorporation have not been valued.

Inherited Land and buildings with a net book value of £5.7M have been financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Scottish Funding Council to surrender the proceeds.

Perth College
Notes to the Accounts for the year ended 31 July 2019

13 Tangible Fixed Assets (College only)

	Freehold Land and Buildings £000	Equipment £000	Total £000
Cost or Valuation			
At 1 August 2018	37,207	4,408	41,615
Additions	-	318	318
Disposals	(207)	-	(207)
At 31 July 2018	37,000	4,726	41,726
Depreciation			
At 1 August 2018	1,002	4,238	5,240
Charge for year	987	46	1,033
Revaluation	(32)	-	(32)
At 31 July 2019	1,957	4,284	6,241
Net book value At 31 July 2018	35,043	442	35,485

Land and buildings were revalued during the year ended 31 July 2018 by J & E Shepherd (Chartered Surveyors). Other tangible fixed assets inherited from the Local authority at incorporation have not been valued.

Inherited Land and buildings with a net book value of £5.7M have been financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Scottish Funding Council to surrender the proceeds.

Perth College
Notes to the Accounts for the year ended 31 July 2019

13 Tangible Fixed Assets (College only) (continued)

If inherited land and buildings had not been valued they would have been included at the following amounts:

	£000
Cost	-
Aggregate depreciation based on cost	-
Net book value based on cost	<u>-</u>

14 Investments

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Investments in subsidiary company	<u>20</u>	<u>20</u>

The college owns 100% of the issued ordinary £1 shares of Air Service Training (Engineering) Limited, a

The principal business activity of Air Service Training (Engineering) Limited is the provision of training and

In the year to 31st July 2019, the Company made an operating profit before tax of £245,516 which was paid as a donation to Perth College which resulted in a net asset position of £22,855 at 31 July 2019.

15 Debtors

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Amounts falling due within one year				
Trade Debtors	548	383	738	340
Amounts owed by group undertakings:				
Subsidiary undertaking	-	254	-	234
Prepayments and accrued income	1 101	986	455	397
	<u>1,649</u>	<u>1,623</u>	<u>1,194</u>	<u>971</u>

16 Current Assets - Held for Sale

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
28 Morris Court	110	110	-	-
Kinross Learning Centre	120	120	-	-
	<u>230</u>	<u>230</u>	<u>-</u>	<u>-</u>

Morris Court was sold in September 2019 for £110,000. A sale has been agreed for Kinross Learning Centre for £120,000 but that sale has not yet been completed.

17 Cash and cash equivalents

	At 1 August		Cash flows	At 31 July 2019	
	2018 £000	2018 £000	At 31 July 2019 £000	2019 £000	2018 £000
Cash and cash equivalents	2,188	568	2,756	2,756	2,188
Total	<u>2,188</u>	<u>568</u>	<u>2,756</u>	<u>2,756</u>	<u>2,188</u>

Perth College
Notes to the Accounts for the year ended 31 July 2019

18 Creditors - amounts falling due within one year

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Bank loans and overdrafts	-	-	300	300
Trade creditors	567	524	511	459
Amounts owed to group undertakings:	-	-	-	-
Other creditors	620	614	208	179
Other taxation and social security	481	451	326	299
Accruals and deferred income	2,767	1,986	3,694	2,772
Deferred income - capital grants	203	203	197	197
Unspent student support funds	301	301	293	293
	<u>4,939</u>	<u>4,079</u>	<u>5,528</u>	<u>4,500</u>

19 Creditors - amounts falling due after more than one year

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Deferred income - capital grants	5,374	5,374	5,266	5,266
	<u>5,374</u>	<u>5,374</u>	<u>5,266</u>	<u>5,266</u>

20 Borrowings

The college had a term loan with the Bank of Scotland which was secured over the property known within the Standard Security as the Student Accommodation, Perth College, Brahan Campus, Crieff Road, Perth. The loan was repayable over five years and carried an interest rate of 4.37% per annum. The balance as at 31 July 2018 was £300,000 and the loan was fully repaid during the year ended 31 July 2019.

21 Pension Provision

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
At 1 August	2,883	2,883	8,979	8,979
Movement	2,800	2,800	(6,096)	(6,096)
At 31 July	<u>5,683</u>	<u>5,683</u>	<u>2,883</u>	<u>2,883</u>

The provision is solely in relation to defined benefit obligations relating to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in note 23.

22 Other Provisions

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
National insurance provision	250	250	-	-
	<u>250</u>	<u>250</u>	<u>-</u>	<u>-</u>

Perth College
Notes to the Accounts for the year ended 31 July 2019

23 Deferred capital grants included within creditors

	Government £000	Non Government £000	Total £000
Balance at 1 August 2018			
Land and buildings	504	4,852	5,356
Equipment	22	85	107
Cash received			
Land and buildings	-	-	-
Equipment	318	-	318
Transfer from Non-Government to Government			
Land and buildings	4,852	(4 852)	-
Equipment	85	(85)	-
Released to income and expenditure account			
Land and buildings	(178)	-	(178)
Equipment	(25)	-	(25)
At 31 July 2019			
Land and buildings	5,178	-	5,178
Equipment	400	-	400
	5,578	-	5,578
Amounts falling due within one year	5,375	-	5,375
Amounts falling due after more than one year	203	-	203
	5,578	-	5,578

24 Defined benefit obligations

The College's employees belong to two principal post-employment benefit schemes: the Scottish Teachers' Superannuation Scheme (STSS) and Tayside Superannuation Scheme, the Local Government Pension Scheme (LGPS), which is managed by Dundee City Council. Both are multi-employer defined-benefit schemes.

Total pension cost for the year	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Scottish Teachers' Superannuation Scheme: contributions paid	1,219	1,118
Local Government Pension Scheme:		
Contributions paid	1,039	920
FRS102 (28) charge	1,088	979
Charge to the Statement of Comprehensive Income	<u>2,127</u>	<u>1,899</u>
Total pension cost for year within staff costs	<u><u>3,346</u></u>	<u><u>3,017</u></u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal valuation of the STSS was 31 March 2016 and of the LGPS 31 March 2017.

Scottish Teachers' Superannuation Scheme

The STSS is an unfunded multi-employer defined benefit scheme. It is accepted that the treatment can be as a defined contribution scheme as the STSS is unable to identify its share of the underlying assets and liabilities of the scheme. As the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the schemes actuaries at a level to meet the costs of the pensions as they accrue.

Under the definitions set out in FRS102 (28.11), the STSS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has taken advantage of the exemption in FRS102 and has accounted for its contributions as if it were a defined contribution scheme.

The current contribution paid by Perth College for the year was 17.2%.

Local Government Pension Scheme (Tayside Superannuation Fund)

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contributions made for the year ended 31 July 2019 were £1,345k, of which employer's contributions totalled £1,039k and employee's contributions totalled £306k. The agreed contribution rates for future years are 17% for employers and range from 5.5% to 11.2% for employees, depending on salary.

Perth College
Notes to the Accounts for the year ended 31 July 2019

Principal actuarial assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2017 updated to 31 July 2019 by a qualified independent actuary.

	As at 31 July 2019	As at 31 July 2018
Discount rate	2.10%	2.65%
Pension increases	2.35%	2.35%
Salary increases	3.35%	3.35%
Inflation assumption (CPI)	2.35%	2.35%
Commutation of pensions to lump sums	50.00%	50.00%

The assumed life expectations from age 65 are:

	As at 31 July 2019	As at 31 July 2018
	years	years
<i>Retiring today</i>		
Males	19.7	20.3
Females	21.6	22.3
<i>Retiring in 20 years</i>		
Males	21.3	22.1
Females	23.5	24.1

The College's estimated share of assets in the scheme at the balance sheet date were:

Fair value as at

	As at 31 July 2019	As at 31 July 2018
	£000	£000
Equities	22,351	20,653
Gilts	1,517	1,576
Other bonds	3,897	3,200
Property	3,610	3,494
Cash	573	475
Alternatives	16	7
Total fair value of scheme assets	31,964	29,405

The return on the Fund for the year to 31 July 2019 is estimated to be 7%

Actual return on scheme assets	2,007	2,897
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Perth College
Notes to the Accounts for the year ended 31 July 2019

The amount included in the balance sheet in respect of the defined benefit pension scheme is as follows:

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Fair value of scheme assets	31,964	29,405
Present value of scheme liabilities	(36,480)	(31,046)
Present value of unfunded liabilities	(1,167)	(1,242)
Net pensions (liability) (Note 20)	(5,683)	(2,883)

Amounts recognised in the Statement of Comprehensive Income in respect of the scheme are as follows:

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Amounts included in staff costs		
Current service cost	2,049	1,657
Finance charges	64	230
Admin expenses	14	12
Total	2,127	1,899

Amount recognised in Other Comprehensive Income

Return on scheme assets in excess of interest	1,220	2,209
Change in financial assumptions	(4,032)	2,070
Experience (loss)/gain on defined benefit obligation	-	333
Other Actuarial Gains/Losses	-	749
Change in Demographic Assumptions	1,100	1,714
Amount recognised in Other Comprehensive Income	(1,712)	7,075

Movement in net defined benefit (liability) during the year

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Net defined benefit (liability) in scheme at 1 August	(2,883)	(8,979)
Movement in year:		
Current service cost	(1,617)	(1,657)
Past service cost	(432)	-
Employer contributions	1,039	920
Net interest on the defined (liability)	(64)	(230)
Administration expenses	(14)	(12)
Actuarial gain or loss	(1,712)	7,075
Net defined benefit (liability) at 31 July	(5,683)	(2,883)

Perth College
Notes to the Accounts for the year ended 31 July 2019

Asset and liability reconciliation

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	32,288	34,156
Current service cost	1,617	1,657
Interest cost	851	918
Change in financial assumptions	4,032	(2,070)
Change in demographic assumptions		(1,714)
Experience loss on defined benefit obligations	-	(333)
Estimated benefits paid net of transfers in	(667)	(513)
Past Service Costs, including curtailments	432	
Contributions by Scheme participants and other employers	306	297
Unfunded pension payments	(112)	(110)
Defined benefit obligations at end of period	38,747	32,288
	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Changes in fair value of Fund assets		
Fair value of Fund assets at start of period	29,405	25,177
Interest on assets	787	688
Return on assets less interest	1,220	2,209
Other Actuarial Gains/Losses	-	749
Administration expenses	(14)	(12)
Contributions by employer including unfunded	1,039	920
Contributions by Scheme participants and other employers	306	297
Estimated benefits paid plus unfunded net of transfers in	(779)	(623)
Fair value of Fund assets at end of period	31,964	29,405

Perth College
Notes to the Accounts for the year ended 31 July 2019

25 Post balance sheet events

There are no post balance sheet events to report.

26 Capital commitments

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group	College	Group	College
	£000	£000	£000	£000
Commitments contracted for at 31 July	118	118	-	-

27 Lease obligations

At 31 July the College had minimum lease payments under non-cancellable operating leases as follows:

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group	College	Group	College
	£000	£000	£000	£000
Future minimum lease payments due				
Land and Buildings				
Expiring within one year	110	-	138	30
Expiring within two and five years inclusive	440	-	-	-
Other				
Expiring within one year	95	95	76	76
Expiring within two and five years inclusive	98	98	-	-
Total	743	193	214	106

28 Contingent liability

The College and Air Service Training (Engineering) Limited has executed a Corporate Guarantee under which each Borrower guarantees the payment of all Indebtedness now or in the future owing by each Borrower to Bank of Scotland.

Perth College
Notes to the Accounts for the year ended 31 July 2019

29 Related party transactions

Due to the nature of the College's operations and the composition of the Board of Management (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Board of Management may have an interest. All transactions involving organisations in which a member of the board of governors or the Senior Management Team may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. Transactions during the year with organisations in which a member of the Board of Management may have a material interest are noted below:

Company	Member(s)	Position in organisation	Sales £	Purchases £
Colleges Scotland	Margaret Cook	Director	532	-
APUC Limited	Margaret Cook	Director	261	5,013
Mark Taylor Aerospace Limited	Mark Taylor (AST Director)	Owner	-	56,105

The Perth College Development Trust 2004 (The Development Trust) was established to provide financial and other assistance for Perth College and its students. There are therefore transactions between the two entities. Perth College nominates Trustees to the board of the Trust and administers the Trust on a day to day basis.

Margaret Cook and Brian Crichton are Trustees of Development Trust. On this basis, The Development Trust accounts should be consolidated with the accounts of Perth College. For the year ended 31 July 2019, The Development Trust had net income of £3,543 and Net Assets of £54,486. Perth College have therefore decided not to consolidate the accounts.

30 Bursaries and other student support funds

					Year ended 31 July 2019	Year ended 31 July 2018
	Bursary £000	FE Hardship £000	EMA £000	Other £000	Total £000	Total £000
Balance brought forward	206	12	25	6	249	204
Allocation received in year	2,457	100	114	121	2,792	2,475
Expenditure	(2,118)	(75)	(114)	(121)	(2,428)	(2,430)
Repaid to SFC/UHI (Clawback)	(386)	-	-	-	(386)	-
Virements	-	-	-	-	-	-
Balance carried forward	159	37	25	6	227	249
Represented by:						
Repayable to SFC/UHI as clawback	206	20	25	6		
Retained by College for students	-	17	-	-		

Bursary funds, Higher Education Hardship, Further Education Hardship and Education Maintenance Allowances (EMAs) are available solely for students; the college acts only as a paying agent. The income and related disbursements are therefore excluded from the Income and Expenditure Account.

31 Childcare funds

		Year ended 31 July 2019	Year ended 31 July 2018
		£000	£000
Balance brought forward		58	63
Allocation received in year		448	484
Expenditure		(433)	(489)
Repaid to SFC (Clawback)		-	-
Virements		-	-
Balance carried forward		73	58
Represented by:			
Repayable to SFC as clawback		32	28
Retained by College for students		41	35

The income and related disbursements are included in the Income and Expenditure Account.

32 Government Non-cash allocation for depreciation

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
Surplus/(deficit) before other gains and losses (FE/HE SORP basis)	(327)	(327)	(1,450)	(1,450)
Add back: Non-cash allocation for depreciation (net of deferred capital grant)	1,058	1,031	1,081	1,049
Deferred capital grant	(203)	(203)	(197)	(197)
Operating surplus/(deficit) on Central Government accounting basis	<u>528</u>	<u>501</u>	<u>(566)</u>	<u>(598)</u>

33 Summary Pension Note

The analysis of amounts charged to the Statement of Comprehensive Income (SOCl) is as follows:

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Charged to staff costs:		
Current service costs	(1,617)	(1,657)
Past service costs	(432)	-
Total charged to staff costs	<u>(2,049)</u>	<u>(1,657)</u>
Credit/charge for net return on pension scheme :		
Interest income	787	688
Interest cost	(851)	(918)
Net interest charges	<u>(64)</u>	<u>(230)</u>
Credit/charge to other comprehensive income:		
Return on assets	1,220	2,209
Other experience	1,100	2,796
Gains and losses arising on charges in financial assumptions	(4,032)	2,070
Actuarial Gain/(Loss)	<u>(1,712)</u>	<u>7,075</u>
Total charge to the SOCl	<u>(3,825)</u>	<u>5,188</u>
Analysis of the movement in deficit during the year:		
Deficit in scheme at the start of the year	(2,883)	(8,979)
Service costs	(2,049)	(1,657)
Employer contributions	1,039	920
Net interest costs	(64)	(230)
Administration expenses	(14)	(12)
Actuarial gain/(loss)	(1,712)	7,075
Deficit in scheme at the end of the year	<u>(5,683)</u>	<u>(2,883)</u>

Perth College
Notes to the Accounts for the year ended 31 July 2019

34 Revaluation Reserve

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
At 1 August 2018	17,949	17,949	14,305	14,305
Disposal	55	55	-	-
Revaluation	-	-	4,003	4,003
Write back of depreciation on revaluation	-	-	-	-
Transfer to income and expenditure account	(359)	(359)	(359)	(359)
At 31 July 2019	17,645	17,645	17,949	17,949

35 Income & Expenditure Reserve

	Year ended 31 July 2019		Year ended 31 July 2018	
	Group £000	College £000	Group £000	College £000
At 1 August 2018	11,188	11,186	11,300	11,298
Surplus/Deficit for the year	(326)	(325)	(1,450)	(1,450)
Transfer from revaluation reserve	359	359	359	359
Transfer from pension reserve	1,088	1,088	979	979
At 31 July 2019	12,309	12,306	11,188	11,186

Perth College

Appendix 1

2018-19 Accounts direction for Scotland's colleges and Glasgow Colleges' Regional Board

1. It is the Scottish Funding Council's direction that institutions¹ comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts².
2. A new SORP ("the 2019 SORP") was issued in October 2018 and this must be adopted for accounting periods beginning on or after 1 January 2019 and thereafter. Early adoption is permitted as described in Section 27 ('Transition to the 2019 SORP') of the 2019 SORP.
3. Institutions must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (RSB) (for assigned colleges).
4. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2018-19 (FReM) where applicable.
5. Incorporated colleges and Glasgow Colleges' Regional Board are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2019.
6. The annual report and accounts should be signed by the chief executive officer / Executive Director and by the chair, or one other member of the governing body.
7. Incorporated colleges and Glasgow Colleges' Regional Board should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
5 July 2019

Committee	Audit Committee
Subject	Draft Annual External Audit Report 2018/19
Date of Committee meeting	11/02/2020
Author	EY
Date paper prepared	07/02/2020
Executive summary of the paper	<p>Following the year end audit of the Financial Statements for 2018/19, this report has been prepared by the College's External Auditors EY.</p> <p>This annual report is prepared for the Board of Management and the Auditor General in relation to the completion and findings related to the Financial Statements 2018/19.</p> <p>This report highlights a number of areas of concern in relation to the adequacy and effectiveness of the College's systems of internal control and value for money.</p> <p>Recommendation</p> <p>The Audit Committee is requested to consider and where appropriate revise the Management Response section of the report for submission and approval to the Board of Management at its meeting on 20 February 2020.</p>
Consultation How has consultation with partners been carried out?	The content has been drafted by EY based on consultation with SMT.
Action requested	<input type="checkbox"/> For information only <input checked="" type="checkbox"/> For discussion <input type="checkbox"/> For recommendation <input checked="" type="checkbox"/> For approval

<p>Resource implications (If yes, please provide details)</p>	<p>Yes/ No Implementation of the control weaknesses outlined in the report will require resources from SMT, Finance, HR and other key staff across the College.</p>
<p>Risk implications (If yes, please provide details)</p>	<p>Yes/ No There is a key risk over the reputation of the College as a result of this report. Mitigation – SMT have prioritised the implementation of the actions to be addressed within this report. Stakeholder management will be undertaken to ensure the messages contained within the report are managed effectively. There is a risk that the implementation plans to address the control weaknesses are delayed. Mitigation –SMT have prioritised the implementation of actions to address these weaknesses. Agreement on timeline of other deadlines can be amended as required.</p>
<p>Link with strategy Please highlight how the paper links to the Strategic Plan, or assist with:</p> <ul style="list-style-type: none"> • Compliance • National Student Survey • partnership services • risk management • other activity [e.g. new opportunity] – please provide further information 	<p>Provide a summary of the how the paper links to key College priorities and what they are This project supports the delivery of the strategic aim Financial sustainability This paper assists with risk management, compliance with legal duties and with the Code of Good College Governance.</p>
<p><u>Equality and diversity</u> Yes/ No If yes, please give details:</p>	<p>Click or tap here to enter text.</p>
<p>Island communities Does this activity/ proposal have an effect on an island</p>	<p>Yes/ No If yes, please give details:</p>

community which is significantly different from its effect on other communities (including other island communities)?	Click or tap here to enter text.
Data Protection Does this activity/ proposal require a Data Protection Impact Assessment?	Yes/ No Set out any data protection aspects and whether a data protection impact assessment is needed
Status (e.g. confidential/non confidential)	Confidential
Freedom of information Can this paper be included in "open" business?* -Yes	Papers should be open unless there is a compelling reason for them to remain closed. If a paper, or parts of a paper, are to remain closed the reason for that exemption must be specified – see reasons below

* If a paper should **not** be included within 'open' business, please highlight below the reason.

Its disclosure would substantially prejudice a programme of research	<input type="checkbox"/>	Its disclosure would substantially prejudice the effective conduct of public affairs	<input checked="" type="checkbox"/>
Its disclosure would substantially prejudice the commercial interests of any person or organisation	<input type="checkbox"/>	Its disclosure would constitute a breach of confidence actionable in court	<input type="checkbox"/>
Its disclosure would constitute a breach of the Data Protection Act	<input type="checkbox"/>	Other [please give further details] Click or tap here to enter text.	<input type="checkbox"/>

For how long must the paper be withheld? Until the OBC and FBC are approved and funding awarded to begin the project. This would be for an estimated 12 months.

Further guidance on application of the exclusions from Freedom of Information legislation is available via:

<http://www.itspublicknowledge.info/ScottishPublicAuthorities/ScottishPublicAuthorities.asp>
and

http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf

Perth College

**Annual Audit Report to the
Board of Management and the
Auditor General for Scotland -
year ended 31 July 2019**

DRAFT

February 2020



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Wider scope dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none">• financial position and arrangements for securing financial sustainability• suitability and effectiveness of corporate governance arrangements• effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets	15
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards: Appendix A: audited body's responsibilities Appendix B: required auditor communications Appendix C: independence and audit quality Appendix D: action plan Appendix E: follow up of prior year recommendations Appendix F: adjusted errors identified during the audit Appendix G: timing and deliverables of the audit	27

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 2020/21. 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 Steve Varley, 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 Diane McGiffen, 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.

Key Conclusions from our 2018/19 audit

<p>Financial statements: Audit Opinion</p>	<p>We have substantially concluded our audit of the College’s consolidated financial statements for the year ended 31 July 2019. A significant number of adjustments were processed as part of the audit. Appendix F outlines the 28 processed adjustments, along with two unadjusted audit differences arising from the audit.</p> <p>Following substantial revision as part of the audit process, we concluded the other information subject to audit, including parts of the Remuneration Report and the Governance Statement were appropriate.</p>	<p>R E D</p>
<p>Presentation and disclosures</p>	<p>We did not receive draft financial statements in line with our agreed timetable and the accounts and disclosures required substantial revision to allow us to conclude that they were materially compliant with the requirements of the Scottish Funding Council’s 2018/19 Accounts Direction. The College was unable to produce financial statements by the 31 December 2019 deadline.</p>	<p>R E D</p>
<p>Wider Scope: Financial Management</p>	<p>The College has experienced significant turnover within the finance team over a period of 18 months. In December 2018, the previous Chief Operating Officer left the College. We consider that this has had a significant impact on the capacity and capability of the finance team and the College’s ability to provide the Board with the strategic financial planning support that it needs. In our view, the Board had insufficient information to adequately scrutinise financial performance as a result of key financial reports being provided late or verbally.</p> <p>There is significant scope to improve the quality of financial reporting by providing focused analysis on significant budget movements, the impact of key strategies and the forecast outturn position. Our work has identified ongoing weaknesses in internal controls, including lack of effective management review. The College did not fully participate in the NFI exercise and NFI is not yet embedded within the College’s Fraud Policy and Response Plan.</p>	<p>R E D</p>
<p>Financial Sustainability</p>	<p>The College submitted its Financial Forecast Return to the Scottish Funding Council in September 2019. The Board received insufficient time or support to be able to challenge key assumptions effectively. The FFR has not been subject to the level of scenario planning we would expect. In our view, the FFR does not present a robust medium term financial plan and cannot, therefore provide adequate assurance to the RSB or SFC that financial risks are being managed effectively.</p> <p>The College has established ambitious plans to diversify income within the Business Development and International Strategies, but financial monitoring reports provide insufficient detail to allow the Board to track the delivery of key strategies.</p>	<p>R E D</p>

Governance and
Transparency

The College has many key features of good governance in place but there is a risk that Board members are not provided with enough support or information to fully discharge their responsibilities. The Board did not consider financial monitoring reports or the risk register during the year. We also noted a number of significant decisions, including the structure of the Senior Management Team and the use of settlement agreements, were not subject to scrutiny.

Management's assessment of compliance with the Code of Good Governance noted two areas of non-compliance. The College has also identified a number of significant control weaknesses within the Governance Statement, including the failure to produce and finalise financial statements by the deadline set within the Accounts Direction. We also note that the College's internal auditors have drawn attention to limited progress in made to date in implementing internal audit recommendations.


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Value for Money

The College has reviewed the effectiveness of balanced scorecard reporting during 2018/19, but the current scorecard does not provide metrics for key indicators. We also note that the Board has received only an interim performance report for 2018/19, but that 40% of targets have not been achieved.

Significant procurement weaknesses have been identified and disclosed within the College's governance statement.

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Introduction

Our key contacts:

Stephen Reid
Partner
sreid2@uk.ey.com

Grace Scanlin
Senior Manager
grace.scanlin@uk.ey.com

Rachel Wynne
Assistant Manager
rachel.wynne@uk.ey.com

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.

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 the College’s arrangements.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as the College’s external auditor.

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 Audit and Risk Committee on 14 May 2019.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2018/19 financial statements. Planning is a continuous process and changes were required to the audit approach as outlined in the plan. These changes were triggered following:

- continued significant changes in personnel within the finance team;
- concerns raised by internal audit with respect of payroll system;
- correspondence received by Audit Scotland during the course of the audit; and
- late provision of compliant financial statements and relevant working papers

As a result, changes were made to the level of materiality that we applied during the audit. The tolerable error was reduced from 75% to 50% of planning materiality.

Overall Materiality	Tolerable Error	Reporting threshold
£460,000	£230,000	£23,000
1.9% of the College's gross 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 a lower materiality level of £1,000 to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

Financial statement audit

We are responsible for conducting an audit of the College's financial statements. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; relevant Auditing Standards and applicable Practice Notes issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland. 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 dimensions of wider scope public audit. During our planning procedures we assessed the College as meeting the definition of a smaller body for the purposes of our wider scope audit consideration. As a result of the risks identified following initial audit fieldwork, our assessment was amended and we extended our work to consider financial management and value for money. Our focus has therefore been to provide judgements and conclusions on all four dimensions of wider scope public audit:

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

Our findings against each dimension are summarised in Section 3 of this report.

Status of the audit

Our audit is substantially complete, subject to the finalisation of our conclusions on the following areas:

- Regularity opinion: As part of our audit opinion, we are required to conclude 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. Our work in this area is informed by a report prepared by the University of the Highlands and Island's Chief Internal Auditor in response to correspondence received from Audit Scotland;
- Finalisation of the financial statements and audit of the College's subsidiary company, AST (Engineering) Limited;
- Confirmation from the Scottish Funding Council that they agree that the College's Adjusted Operating Position has been calculated in accordance with the 2018/19 Accounts Direction;
- Final review of the draft financial statements and finalisation of our quality review procedures; and
- Receipt and review of the letter of representation.

Our audit opinion and updated Annual Audit Report will be considered by the College Board on 20 February 2020.



Financial Statements audit

Introduction

The annual financial statements provide the College with an opportunity to demonstrate accountability for the resources at its disposal, and report on its overall performance in the application of those resources during the year. We are responsible for conducting an audit of the financial statements of the College and provide an opinion on the financial statements as to:

- whether they give a true and fair view of the state of affairs of the College and its group as at 31 July 2019 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).

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.

Our Annual Audit Plan was considered by the Audit and Risk Committee on 14 May 2019. 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).

The plan also highlighted three areas of higher inherent risk within the 2018/19 financial statements:

- Valuation of Property, Plant and Equipment and capital funding;
- Pension Liability and Asset Valuation; and
- Remuneration report disclosures.

Following notification of an internal audit into the payroll system and associated concerns regarding the reliability and accuracy of data within the payroll system, our risk assessment was reassessed. This led to payroll expenditure also being assessed as a significant risk for the purposes of the audit.

Compliance with financial reporting requirements

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

Presentation and quality of financial statements

Exhibit 1 outlines the significant difficulties experienced in receiving draft financial statements for audit. Our previous Annual Audit Reports in both 2016/17 and 2017/18 noted the importance of providing complete financial statements, including front end narrative sections, at the start of the audit. Throughout 2018/19, the College finance team experienced significant staff turnover, which we understand impacted management's capacity to provide the financial statements in line with the initially agreed timetable. This contributed to our revised risk assessment and consideration of the College's overall financial management arrangements, which we report upon within Section 3.

The draft financial statements provided by management were not fully updated from the prior year and did not incorporate new requirements as outlined in the Scottish Funding Council's (SFC) 2018/19 Accounts Direction. We made a significant number of suggestions to enhance presentation and readability, and to ensure compliance with disclosure requirements. We also identified areas where statements were not factually accurate. We are satisfied that management addressed all material comments in the finalised version of the financial statements.

While we worked with the finance team to ensure that the final financial statements are materially compliant with the requirements outlined in the SFC's 2018/19 Accounts Direction, the SORP and FRS 102, the readability and usefulness to the reader must be an ongoing area of focus and improvement in future years, as well as the processes implemented by management to ensure compliant financial statements of a good quality are prepared in a timely manner in advance of the year end audit.

Group financial statements

The College prepares group financial statements, consolidating the results of the College and its subsidiary undertaking, AST (Engineering) Limited. We are satisfied that the consolidated financial statements have been prepared appropriately with inter-company transactions eliminated in line with accounting requirements. We have also substantially completed the audit of the subsidiary financial statements and expect to issue an unqualified audit opinion.

We have considered the arrangements in respect of the Perth College Development Trust (the Trust). During 2018/19, the Chair and Chief Executive became Trustees. Our updated assessment of the Trust concluded that as the College is now able to exert control over the Trust, the Trust should form part of the College group financial statements. In 2018/19 we agreed with management that this would be an unadjusted misstatement on the basis that the Trust financial position at 31 July 2019 is immaterial to the College's financial statements.

Recommendation 1:
Significant improvements are required to the financial closedown procedures and preparation of the financial statements to ensure timely and accurate completion of financial statements.

Exhibit 1: Timeline for the financial statements

Date	Event	Audit Impact
14 May	Annual Audit Plan agreed <ul style="list-style-type: none"> ● Timetable for the audit agreed, including date for final audit fieldwork. 	-
17 September	Internal audit payroll report <ul style="list-style-type: none"> ● Series of errors identified by Internal Audit, including errors in National Insurance contributions. 	<ul style="list-style-type: none"> ● Additional procedures planned for payroll.
21 October	Start of audit fieldwork (Visit 1) <ul style="list-style-type: none"> ● Client Assistance Schedule issued to Head of Finance set deadline for working papers to be complete by 14 October. ● No financial statements available for College or AST and working papers subject to change. ● Informed that Head of Finance had resigned. ● National Insurance error quantified by Head of Finance as £108,000. 	<ul style="list-style-type: none"> ● On 25 October, we contacted the College Vice Principal to raise concerns about lack of preparedness and timescales for the audit committee. ● We reviewed and reduced materiality from 75% to 50%. ● Payroll reassessed as a significant risk. ● Wider scope risk assessment reviewed and scope extended to include Financial Management. ● EY team suspended onsite fieldwork on 1 November 2019.
6 November	Update Call between Finance Team and EY <ul style="list-style-type: none"> ● We noted that no financial statements had been prepared and that significant journals, including fixed asset additions and disposals had not been posted and debtors and creditors were incomplete. ● New Head of Finance and Vice Principal committed to produce financial statements by 15 November 2019. 	<ul style="list-style-type: none"> ● We agreed to remain off site to allow the Finance Team to focus on the preparation of financial statements.
18 November	EY audit team onsite fieldwork resumed (Visit 2) Financial Statements received on 15 November 2019, but significant areas where they were non-compliant, including: <ul style="list-style-type: none"> ● Key FReM requirements missing such as Performance Analysis, Parliamentary Accountability and Audit Report and Directors Report. ● SFC 2018/19 Accounts Direction requirements missing including Cash Budget for Priorities, Depreciation Budget for Government Funded Assets and membership and attendance of the Board. ● Other errors and omissions within the Remuneration Report and Corporate Governance Statement. ● AST (College Subsidiary) financial statements not prepared. 	<ul style="list-style-type: none"> ● Meeting held with Principal and Finance Team to update on progress. ● Meeting held with Vice Principal and Finance Team. ● Guidance and support provided to update the financial statements. ● Significant level of errors identified which led to extended testing, hindered by the College's paper based systems.

Date	Event	Audit Impact
22 November	<p>Correspondence received from Audit Scotland</p> <ul style="list-style-type: none"> A number of financial management allegations were made. UHI Chief Internal Auditor appointed to investigate and report. 	<ul style="list-style-type: none"> Initial correspondence and calls with UHI Chief Internal Auditor to allocate lead roles. Wider scope risk assessment reviewed and elected to apply full scope, including value for money.
28 November	<p>Version 2 of the Financial Statements</p> <p>Significant remaining areas of non-compliance including:</p> <ul style="list-style-type: none"> FReM Requirements: Parliamentary Accountability and Audit Report and Directors Report, Trade Union Facility Time disclosures. SFC 2018/19 Accounts Direction requirement: Cash Budget for Priorities, Depreciation Budget for Government Funded Assets and membership and attendance of the Board. Other errors and omissions within the Remuneration Report and Corporate Governance Statement. AST (Subsidiary) financial statements not prepared. 	<ul style="list-style-type: none"> Additional review of Version 2. Significant payroll errors identified. Significant errors in accruals. Procurement anomalies identified.
29 November	<p>Detailed progress meeting held between EY and College Finance Team</p> <ul style="list-style-type: none"> Discussion with Board Secretary and Vice Principal led to arrangements for an extraordinary audit committee meeting. 	<ul style="list-style-type: none"> Outstanding list provided to Finance Team. Audit Scotland advised that College would not be able to publish audited financial statements by the 31 December deadline
4 December	<p>Update Meeting with Principal and Chair of the Board</p> <ul style="list-style-type: none"> Progress summary discussed. 	<ul style="list-style-type: none"> Ongoing working with UHI Chief Internal Auditor. EY audit team withdrew again to allow Finance to work on outstanding areas.
11 December	<p>Audit Committee</p> <ul style="list-style-type: none"> Audit Partner in attendance to provide progress update. College management identified disclosures to be added to Corporate Governance Statement. 	<ul style="list-style-type: none"> Additional senior involvement in meetings and providing feedback and support for governance disclosures.
6 January	<p>EY audit team fieldwork resumed (Visit 3)</p> <ul style="list-style-type: none"> Financial statements received, but continuing areas missing or non-compliant, including Cash Budget for Priorities, Adjusted Operating Position, errors and omissions within the Remuneration Report and Corporate Governance Statement. 	<ul style="list-style-type: none"> Final testing undertaken. Impact of level of errors considered on overall materiality.
5 February	<p>Updated Financial Statements Received</p> <ul style="list-style-type: none"> SFC approval of Adjusted Operating Position received on [TBD] 	<ul style="list-style-type: none"> Additional review and comments on disclosure amendments

Our testing was conducted over three visits and was impacted by the reduction in materiality, the level of omissions and errors identified and the paper based systems in place at the College.

Impact on the audit

As a result of the significant issues encountered, substantial changes were required to our audit approach. The key changes included:

- Reduction in the material level we applied to the financial statements audit. This significantly increases the level of testing applied as a result of balances being brought within the testing threshold;
- Reassessment of payroll as a significant risk;
- Additional testing as a result of errors identified, to provide overall assurance over balances;
- Key disclosures, including the Remuneration Report requirements were subject to significant revision throughout the audit process.
- Review of multiple versions of the narrative sections of the financial statements which had not been subject to sufficient quality review against the requirements of the SFC's 2018/19 Accounts Direction or HM Treasury Financial Reporting Manual.

Additionally, the time taken to undertake testing was higher than we would normally expect as a result of the paper based system in place within finance.

Audit outcomes

Management made a number of adjustments following the start of our onsite audit work in relation to:

- the actuarial valuation of the LGPS liability;
- capital additions in the year and associated capital grants; and
- corrections to tuition fee income.

We identified two unadjusted audit differences arising from the audit that breached our reporting threshold. Subject to the finalisation of our audit procedures, 30 adjustments were processed as part of the audit, including eight that impacted the AST financial statements. Each adjustment is outlined in Appendix F.

Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
<p>Financial statements</p> <p>The financial statements provide a true and fair view of the state of affairs of the College and its group at 31 July 2019 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 expect to issue an unqualified audit opinion on the 2018/19 financial statements for Perth College and its group.</p>
<p>Going concern</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>We have no matters to report.</p>
<p>Other information</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"> Review of committee minutes and papers, regular discussions with management, our understanding of the College and the sector. 	<p>We are satisfied that the annual report materially meets the core requirements set out in the Accounts Direction.</p>
<p>Report on regularity of income and expenditure</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"> Understanding the applicable enactments and guidance issued by the Scottish Ministers. Performed detailed testing of income and expenditure testing to ensure transactions are in line with enactments and guidance 	<p>Our work is ongoing in this area.</p>
<p>Matters prescribed by the Auditor General for Scotland</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>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit 	<p>We have no formal matters to report but we have made observations and recommendations on the quality of management records.</p>

Significant and fraud audit risks

1. Risk of Fraud in Income and Expenditure Recognition

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

In our audit planning, we rebutted the risk of improper recognition of Scottish Funding Council (“SFC”) core grant funding because there is no judgement in respect of this income stream. With regards to expenditure, we rebutted the risk of improper recognition of payroll expenditure at the planning stage however following the identification of weaknesses in the payroll system by internal audit, our assessment changed to incorporate the risk of improper recognition of payroll expenditure. The charts below highlight how our assessment impacts our testing strategy on the College’s financial statements.

Exhibit 2: Key components of the College’s income and expenditure



Source: 2018/19 Financial Statements: Statement of Comprehensive Income and Expenditure

Our testing identified significant misstatements relating to revenue and expenditure recognition. A total of 30 adjustments were required to the financial statements.

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 challenge management's accounting estimates over revenue or expenditure recognition for evidence of bias.
- Review transaction listings for individually material balances as well as unusual items to agree to supporting documentation and third party evidence.
- Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage of testing across all balances.
- Review and test income and expenditure to ensure it is accounted for in the correct financial period.
- Perform a search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.

Our testing identified a number of errors within accrual accounting, where invoices had been processed incorrectly. The level of errors within our initial sample meant that additional testing was performed and we extended our cut off testing. We tested 50% of accruals and extrapolated the results across the remaining population to provide the judgemental error highlighted in Appendix E.

This level of error highlights the importance of the need for management to quality review both of individual journals, and of the draft financial statements.

Deferred Income

In March 2019, the Head of Finance indicated that she may have identified a prior year error in relation to the treatment of deferred income. She highlighted two income streams where information was available elsewhere in the College to support the release of income that had previously been deferred. We worked with the Head of Finance and the Vice Principal – External to assess the information available at the time of the preparation of the 2017/18 financial statements, and the timing of the completion of milestones. The impact of this work is summarised in Appendix F and resulted in a release of income relating to Foundation Apprenticeships (£223,398) and 2016/17 LUPS income (£118,977). We agreed with management that it was appropriate to release the income into the 2018/19 statements as the overall level of income did not breach our materiality level in 2018/19 or 2017/18.

The lack of clear management records, and poor communication between the Finance Department and other departments within the College meant that Finance was unaware of milestone reporting for Foundation Apprenticeships. More generally, we noted that the process to track income streams needs to be strengthened to improve the quality of financial reporting across the College.

Recommendation 2: The Finance Team must ensure that quality assurance and review processes are in place throughout the year to reduce the risk of fraud or error.

Recommendation 3: The Finance Team should review the processes in place to record and track all sources of income.

Additional Significant Risk Areas

Payroll

In September 2019, the College's internal auditors drew attention to a number of errors within payroll, including an underpayment of national insurance contributions over the course of three years that was later estimated at £108,000.

As a result, we reclassified payroll as a significant risk. The College's payroll costs amounted to £17.9 million in 2018/19 and account for around 70% of expenditure.

Our audit procedures

- Considered the work performed by the College's internal auditors and used this to tailor our audit approach to the most significant risk areas.
- Challenged management's assessment of the national insurance provision and the underlying data used to inform the estimate.
- Tested a sample of employee deductions to ensure both pay and deductions were accurate.
- Reconciled the payroll system to the financial ledger to ensure the completeness of payroll expenditure.
- Performed analytical procedures to ensure payroll costs are consistent with headcount and known pay changes.
- Challenged management's assessment of the annual leave accrual and the underlying data used to inform the estimate.

Our findings

Our payroll testing identified a number of differences related to pension contribution testing including:

- Incorrect calculation of pensionable pay
- Incorrect rates used for calculating employee pension contributions
- Employees being enrolled in two pension schemes

Management have performed additional procedures, including asking internal audit to estimate the potential financial impact. As a result, we are content that any differences will not breach materiality for the purposes of the financial statements.

We did not identify any other audit matters to report.

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 inherent risk areas are summarised below.

Valuation of Property Plant and Equipment

The College's PPE portfolio totals £35.8 million. Our work focused on judgements in relation to the valuation of the College's land and buildings and treatment of deferred capital income.

Our audit procedures

- Considered the work performed by the College's external valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- We undertook procedures to align historic deferred grants to individual assets on the asset register. We confirmed that the deferred grant workings and fixed asset register are consistent
- We considered changes to useful economic lives as a result of the most recent valuation and tested to ensure that deferred grants are released in line with the assets useful life
- Analysed the source data and made inquiries as to the procedures used by management's specialist to establish the source data was complete.
- Challenged management's assessment of the estate valuation at the year end and any indicators of impairment.
- Verified that the specialist's findings have been correctly processed in the financial statements through testing of accounting entries.
- Reviewed the College's backlog maintenance estates plans, including consideration of possible indicators of impairment of the existing estate and whether backlog maintenance expenditure in the year had been correctly accounted for as capital or revenue expenditure.

Our findings

We reviewed the assumptions used in the valuation of land and buildings for 2018/19. As part of that work we challenge the accuracy and appropriateness of assumptions, and agreed the workings to underlying asset information.

Our testing has not identified any material misstatements relating to property, plant and equipment.

Our audit procedures

Our findings

Valuation of Pension Liabilities

The College's pension fund deficit is a material estimated balance. Under the Higher and Further Education SORP (2015), the liability is disclosed on the College's balance sheet. At 31 July 2019, the College's share of the pension scheme net liability totalled £5.683 million (2017/18: £2.883 million).

Accounting for this scheme 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.

We have focused on the following areas, which are consistent with those of management:

- The reasonableness of the underlying assumptions used by the College's actuary, including those associated with recent judgements on McCloud and Guaranteed Minimum Pensions (GMP).
- Ensuring the information supplied to the actuary in relation to the College was complete and accurate.
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

We have liaised with the appointed auditor of the Tayside Pension Fund to obtain assurances over the information supplied to the actuary in relation to the College.

We have assessed the work of the Pension Fund actuary including the assumptions they have used by utilising our in-house experts. We have assessed both the robustness of the methodology used to derive the key actuarial assumptions and the reasonableness and consistency of the assumptions underpinning such reports, using guidance available.

We performed additional testing on the College's share of the Fund pension assets at 31 July, performing roll forward procedures on its share of assets from 31 March to the College balance sheet date.

We assessed the approach taken by the actuary to account for the estimated impact of the recent rulings made around the McCloud judgement and various rulings around GMP.

We have considered the reasonableness of the reported asset position and note that the actuary's estimated investment returns were consistent with actual investment returns for Tayside Pension Fund.

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.

Looking ahead

Recommendation 4:


The College should conduct an impact assessment on the implementation of the revised SORP.

Updated Statement of Recommended practice: accounting for further and higher education 2019 edition

The Statement of Recommended Practice (SORP): accounting for further and higher education has been updated to reflect the amendments made to FRS 102 following its triennial review in 2017. The revised SORP will be effective for financial periods beginning on or after 1 January 2019 and therefore will be applied by the College within their 2019/20 financial statements.

The triennial review was published by the Financial Reporting Council in December 2017. The majority of amendments were editorial in nature and clarified rather than changed accounting treatment. The amendments to the SORP follow a similar basis and it is not therefore anticipated that the College will be required to adopt substantive changes to accounting treatments. We do, however, anticipate that the College will be required to adopt a number of changes to disclosure requirements.

We will work with management during 2019/20 to ensure the correct application of the new requirements.



Wider Scope Dimensions

Introduction

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the College's arrangements for wider scope audit dimensions. We apply our professional judgement to risk assess and focus our work on each of the dimensions.

As in previous years, and in accordance with Audit Scotland planning guidance, within the Annual Audit Plan we assessed that it was appropriate to classify the College as a smaller body for the purposes of our wider scope audit consideration.

As a result of significant changes impacting the College, during audit fieldwork we reviewed and revised our risk assessment. Key factors influencing our wider scope assessment included:

- significant turnover within the finance team, including the resignation of the Head of Finance in November 2019;
- the impact of the College's updated financial planning; and
- correspondence received by Audit Scotland in relation to the College.

As a result, we extended the scope of our work to address each of the four wider scope audit dimensions.

The Wider Scope dimensions

- **Financial Sustainability:** Considers the medium and longer term outlook to determine if planning is effective to support service delivery, including arrangements to develop viable and sustainable financial plans.
- **Financial Management:** Considers the effectiveness of financial management arrangements, including the adequacy of 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 governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for Money:** Considers whether best value can be demonstrated in the use of resources, and that there is a clear focus on improvement.

The scope of our audit was significantly extended as a result of the identification of additional risks at the College.

Financial Management

The College has experienced significant turnover within the finance team over a period of 18 months. In December 2018, the previous Chief Operating Officer left the College. We consider that this has had a significant impact on the capacity and capability of the finance team and the College's ability to provide the Board with the strategic financial planning support that it needs. In our view, the Board had insufficient information to adequately scrutinise financial performance as a result of key financial reports being provided late or verbally.

There is significant scope to improve the quality of financial reporting by providing focused analysis on significant budget movements, the impact of key strategies and the forecast outturn position. Our work has identified ongoing weaknesses in internal controls, including lack of effective management review. The College did not fully participate in the NFI exercise and NFI is not yet embedded within the College's Fraud Policy and Response Plan.

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Recommendation 5:

The College must review the capacity and capability within the Finance Team to ensure that skills gaps are addressed.

The Board needs to urgently ensure that there are appropriate arrangements established to provide strategic financial leadership.

Finance Team

The College has experienced significant turnover within the finance team over a period of 18 months. In December 2018, the Chief Operating Officer (COO) left the College. College management elected to take the opportunity to release savings and enhance academic representation on the SMT, rather than replacing the position. Throughout the audit, we found that organisational knowledge has been significantly impacted by the departure of long-serving team members. In our view, the College's capacity to provide the Board with strategic financial planning has also been impacted by the loss of the COO role.

We have been unable to find evidence that the Board considered options for the finance team structure, but a paper to the Remuneration Committee in September 2019 refers to a number of alterations that were made to the responsibilities of the remaining Senior Management Team (SMT) members when the role of COO was removed from the structure in December 2018. We would expect a decision of this significance to be considered by the Board. We have also noted that none of the current members of the SMT has a financial background.

The College's Head of Finance resigned in November 2019, shortly before the commencement of our final audit fieldwork. During the year, the Financial Accountant role was performed by a number of interim appointments, before the role was filled permanently in November 2019. We consider that the Finance Team overall has had insufficient knowledge and experience, particularly in financial accounting, since December 2018.

Financial Reporting

Financial updates were presented at each meeting of the Finance and General Purposes (F&GP) Committee. As we outline in Exhibit 3, financial reporting was inconsistent, late and often verbal. In our view, Board members had insufficient information to adequately scrutinise financial performance.

The 2019/20 budget was not formally considered by the Board or F&GP Committee until the financial year had commenced. Similarly, the Financial Forecast Return was not formally approved until after it had been submitted to the SFC.

Recommendation 6:

Financial reporting must be significantly improved to support Board member scrutiny.

Exhibit 3: Financial Reporting to Committees did not adequately support Board member scrutiny

Committee	Papers Due	Late	Verbal	Commentary
February 2019 F&GP Committee	Management accounts: 6 months to 31 January 2019			Received 5 months to 31 December 2018
	Group Forecast			
May 2019 F&GP Committee	Management Accounts: 9 months to 30 April 2019			
	Group Forecast			
	2019/20 Indicative Budget			No papers provided. Action to present to June Board meeting
June 2019 Board of Management	2019/20 Indicative Budget			Paper removed from agenda. Verbal update provided. Chair asked for a note to be circulated from the Principal.
Sept 2019 F&GP Committee	Management accounts to 31 July			We understand an outline paper was tabled at the meeting
	2019/20 budget proposals			
	Financial Forecast Return to SFC			Due to be submitted to the SFC 30 September 2019
Oct 2019 Board of Management	2019/20 Budget			Considered by Board 4 months into the financial year
	Financial Forecast Return			Approved after submission to the SFC

Verbal and late papers to governance committees mean that Board members are given insufficient opportunity to perform their role effectively.

Insufficient scrutiny was given to the FFR prior to submission to the SFC.

Source: Perth College Committee Papers 2019

We have reviewed financial updates presented during the year and, where possible, evaluated the quality of content provided. We note that the management accounts changed format during the year to provide additional detail. This level of detail may obscure key messages about the overall financial health of the College. There is significant scope to improve the quality of financial reporting by providing focused analysis on significant budget movements, and the forecast outturn position.

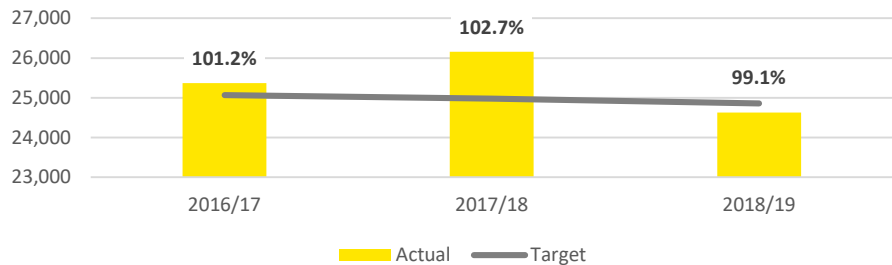
Financial Performance

The College reported a consolidated deficit of £0.325 million for the year (2017/18: £1.45 million deficit). Following an actuarial loss of £1.7 million (2017/18: actuarial gains of £7.1 million), the College reported total comprehensive expenditure of £1.982 million (2017/18: £5.6 million income).

The College had an operating surplus after removal of non-cash accounting adjustments (relating to pension and capital accounting adjustments) of £336,000 (2017/18: deficit of £109,000).

As Exhibit 4 demonstrates, in 2018/19 the College did not achieve the full allocation of credit targets. An activity target of 24,855 credits was allocated to the College from the SFC. The College achieved all of its core targets, but only 972 of the 1,200 European funding target.

Exhibit 4: The College did not achieve all of its credit targets in 2018/19



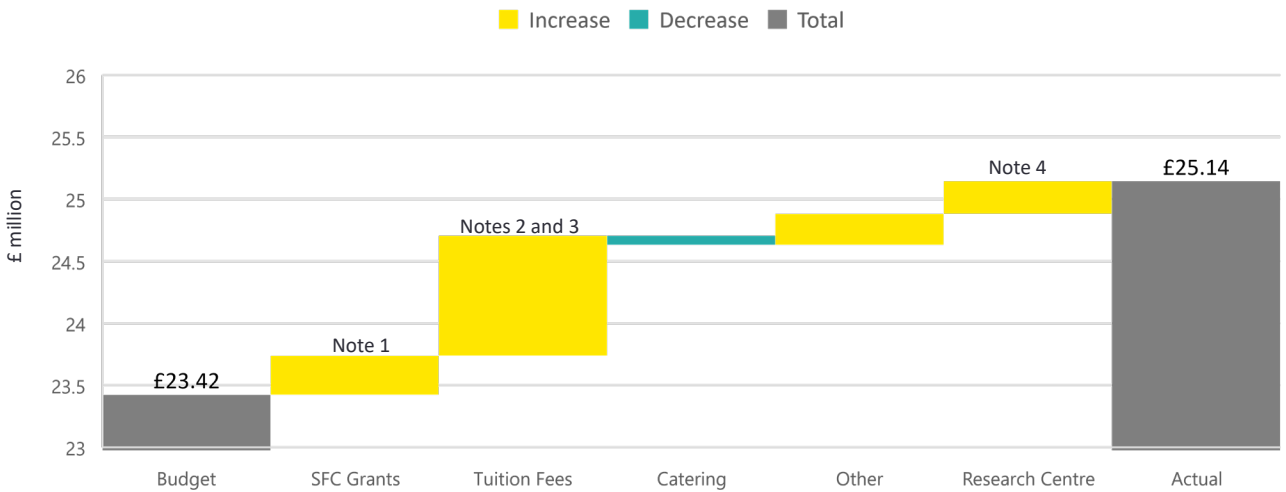
Source: Scottish Funding Council

Financial Monitoring

The College's 2018/19 budget was approved in September 2018 by the Finance and General Purposes (F&GP) Committee. The College budgeted a group deficit of £127,000 prior to accounting for FRS 102 pension adjustments. The Head of Finance indicated that the actual position was broadly in line with budget within the financial monitoring reports until the final, tabled, management accounts paper in September 2019. This indicated that the College would achieve an underlying surplus of £491,000.

Exhibit 5, highlights that the key reason for the improved projection related to income. Income in 2018/19 was £1.7 million higher than budget, partly as a result of weaknesses in record keeping and communication across the College.

Exhibit 5: The College’s income was significantly higher than budgeted within financial monitoring reports



Notes:

1. SFC Grants increased primarily as a result of additional income related to curriculum development.
2. Income relating to LUPs European Social Fund exceeded management expectations. As a result of the likelihood of missing the target, no account was taken for LUPS income within the budget. Income of £272,000 was confirmed by UHI in December 2019. The potential volatility of this funding was noted by the F&GP Committee in March 2018, and an action was agreed to report the income separately within Financial Monitoring reports. This was not evident during 2018/19.
3. The Tuition fees and Education Contracts balance includes the release of 2017/18 deferred income relating to Foundation Apprenticeships (referred in Appendix F), totalling £223,398.
4. The release of research income grant relating to Mountain Studies was not fully budgeted, leading to an increase in income of £388,000.

Source: Perth College Management Accounts and External Audit 2018/19

Systems of internal control

The Board of Management is responsible for ensuring that an effective system of internal control is in place. Throughout our audit of the financial statements, we have tested 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 operating as designed. Our work has identified ongoing weaknesses in internal controls, including:

- Reliance on paper based systems, which led to problems in relation to the retention of financial records.
- Lack of segregation of duties, including inadequate review of journal entries and lack of purchase orders.
- 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.
- Significant delay in the transition to the Government Banking Service leading to the maintenance of unnecessary bank accounts.

Recommendation 7:
The College must improve key financial controls to ensure that the weaknesses identified are addressed at pace.

Recommendation 8:

The College should ensure that the Fraud Response Plan is updated to reflect the investigation of matches identified through the NFI exercise.

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 was asked to conduct a self assessment by the end of February 2019 to allow us to report on our assessment of the College's participation in the exercise to Audit Scotland in June 2019. The self assessment was not conducted and no testing was conducted on the matches identified until after Audit Scotland had written to the College on two occasions. We therefore concluded that the College has not fully participated in the NFI exercise and that it is not yet embedded within the College's Fraud Policy and Response Plan.

Financial Sustainability

The College submitted its Financial Forecast Return to the Scottish Funding Council in September 2019. The Board received insufficient time or support to be able to challenge key assumptions effectively. The FFR has not been subject to the level of scenario planning we would expect. In our view, the FFR does not present a robust medium term financial plan and cannot, therefore provide adequate assurance to the RSB or SFC that financial risks are being managed effectively.

The College has established ambitious plans to diversify income within the Business Development and International Strategies, but financial monitoring reports provide insufficient detail to allow the Board to track the delivery of key strategies.

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The context for financial sustainability in the College sector

In June 2019, Audit Scotland published their annual report on the further education sector, *Scotland's Colleges 2019*. The report provides an overview of college finances based on the latest annual financial statements and financial forecast returns. The sector reported an improved, but marginal underlying surplus in 2017/18 but the report notes a widening gap between college's income and expenditure. Twelve incorporated colleges forecast recurring financial deficits by 2022/23.

Scottish Government revenue funding to the sector has increased year on year since 2016/17 in real terms, but this increase has solely related to funding the costs of harmonising staff terms and conditions. This means that there has been limited additional funding for cost pressures such as cost of living increases, increases in employer pension contributions and inflationary cost increases.

Reduced capital funding poses a risk to some colleges' ability to continue to deliver their core services in a safe environment and to invest in new technologies to generate efficiencies and enhance the student experience.

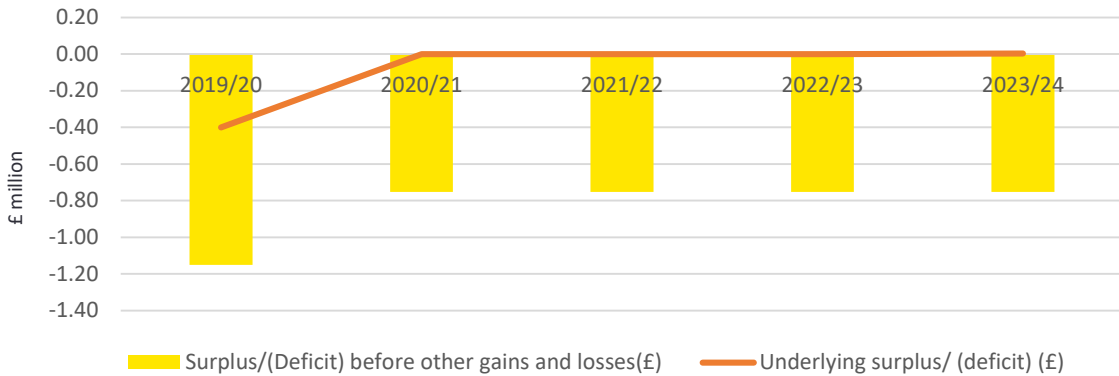
Medium term financial strategy and plan

The College prepared five-year financial forecasts for the period 2019 to 2024 and submitted these to the SFC in the form of the template Financial Forecast Return ('FFR') in September 2019. The forecast was based on assumptions provided by the SFC in addition to College specific assumptions for areas such as the impact of EU withdrawal and other income. The assumptions were subject to review by the College's senior management team in late September 2019 and the Finance & General Purposes Committee considered a verbal update from the Head of Finance on 23 September 2019.

The Board of Management was presented with the FFR in October 2019, following submission to the SFC.

Recommendation 9:
The Financial Forecast Return should be presented in sufficient time to ensure that the Board has an opportunity to influence key assumptions prior to submission.

Exhibit 6: The College's FFR has been developed to forecast a balanced underlying position from 2020/21.



Source: Perth College Financial Forecast Return, September 2019

Financial Planning

The Scottish Funding Council issued guidance on the assumptions and information required from Colleges in June 2019. The guidance is developed in conjunction with sector representatives to provide information on key assumptions to be applied to ensure that the SFC can understand the financial health and projections of the sector as a whole. We note within Exhibit 6, above, that projections within the College's FFR for staff costs have been reduced to reflect the savings required to return a balanced position, rather than as a result of an effective workforce plan. While a staffing model is in development, more work is needed to ensure that a workforce plan is in place that is driven by curriculum and development need. We note that consultation is underway to develop a targeted voluntary severance plan.

There are a number of significant developments underway over the period of the FFR. The College has ambitious plans in place within the Business Development Strategy and International Strategy to increase income, particularly from non-EU countries such as China and Kuwait. As a result, the FFR projects that other income will rise from £4.4 million in 2018/19 to £7.1 million. The College has also outlined plans to develop an aviation centre as part of the Tay Cities Deal.

As a result, there are a number of significant variables that are out with the College's control. The FFR has not been supported by the level of scenario planning that we would expect to see to allow effective scrutiny and challenge by the Board. In our view, the FFR does not present a robust medium term financial plan and cannot, therefore provide adequate assurance to the RSB or SFC that financial risks are being managed effectively.

Recommendation 10: The College urgently needs to develop effective medium term financial planning. This should be supported by scenario planning and ongoing monitoring.

Key risks and uncertainties

The College has identified the 6 most significant risks that may impact the delivery of the FFR (Exhibit 7 below).

Exhibit 7: The College has identified 6 key risks that pose a risk to the College's ability to achieve the FFR and thus impacting their ability to be sustainable in the medium term

Risk title	Description	Risk mitigating actions
Brexit	Perth College Senior Management Team (SMT) recognise the potentially material impact of the ongoing Brexit process to student numbers, EU based funding streams and consequently, the future financial sustainability of the College. SMT make specific note of the time bound guarantee by the SFC for EU Student Tuition Fees ending after 2020/21.	International Delivery Strategy <ul style="list-style-type: none"> The second phase in 2019/20 sets stretch income targets for International income of £900k to be delivered by increases in established International partnerships in China and Japan. Phase 3 will commence in 2022. Countries identified as target emerging markets include Vietnam, Malaysia and Thailand.
UHI Academic Partners' reliance on SFC core funding	Funding dependency is a material risk to the financial sustainability of the College. This reliance is further exacerbated by 95% of the student body being made up of home domiciled students.	<ul style="list-style-type: none"> Business Development to focus on supporting the region in growth Industries such as Health & Social Care and Construction and capitalise on already strong partnerships in Flexible Workforce Development, Foundation/Modern/Graduate Apprenticeship and wider Industry.
Non-achievement of student number targets	As with all other Scottish Colleges, the College recognise the impact of the Widening Access Agenda on student recruitment numbers.	<ul style="list-style-type: none"> Develop existing relationships with regional feeder institutions including Schools and local businesses. Full curriculum review to review, realign and optimise our academic delivery. Active participation in the UHI partnership model, with the objective of Partnership Sustainability.
Estate condition and digital estate	The findings of the Backlog Maintenance Report carried out during 2017/18 demonstrates the immediate requirement of significant financial investment in the campus.	<ul style="list-style-type: none"> Capital Funding to optimise value for money in all Estates works. Development of Digital Estate Strategy. Tay Cities Deal project for the creation of a purpose built Aviation Academy on the College Estate.
Non-funded cost of living impacts	The financial impact of non funded National Bargaining Funding.	Strategic review of internal structures, full curriculum review and reassessment of all academic delivery approaches. It is planned to carry forward a small surplus from 2018/19 for the purposes of implementing a longer term financial sustainability plan through the creation of a re-aligned College structure.

Source: Perth College FFR September 2019

Governance and Transparency

The College has many key features of good governance in place but there is a risk that Board members are not provided with enough support or information to fully discharge their responsibilities. The Board did not consider financial monitoring reports or the risk register during the year. We also noted a number of significant decisions, including the structure of the Senior Management Team and the use of settlement agreements, were not subject to scrutiny.

Management's assessment of compliance with the Code of Good Governance noted two areas of non-compliance. The College has also identified a number of significant control weaknesses within the Governance Statement, including the failure to produce and finalise financial statements by the deadline set within the Accounts Direction. We also note that the College's internal auditors have drawn attention to limited progress in made to date in implementing internal audit recommendations.

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Governance arrangements

The College has taken steps to improve governance arrangements. A review of Board effectiveness was undertaken in February 2019, which was supported by the College's internal auditors. The College also considered and reported on a self assessment against the quality framework "How Good is Your College?" in the Evaluation Report and Enhancement Plan for 2019-21. A number of the key requirements for good governance are in place, including :

- All Board and committee papers and minutes are available on the College's website to promote openness and transparency;
- The Chair has conducted an evaluation of the performance of individual members on a one to one basis;
- The Board has approved detailed terms of reference for its standing committees which are subject to regular review.

However, during our audit work we noted a number of instances where reporting to the Board was ineffective and may not support Board members' specific responsibilities as charitable trustees. Examples include:

- Key decisions on the structure of the Senior Management Team, including the use of settlement agreements, was not reported to the Board.
- In some instances, papers presented to the Board were not clear about the decisions that members were being asked to make and the minutes did not fully reflect the level of discussion. For example, the decision to close Learning Centres was not supported by sufficient financial analysis.
- The 2018/19 budget was approved by the Finance and General Purposes Committee in September 2018. The Board did not consider budget papers, but noted the minutes of the relevant committee. The 2019/20 Budget was approved in October 2019, following the start of the financial year.
- The Board does not receive the risk register or financial monitoring updates as a matter of course.

Recommendation 11:
We understand that the College will receive an external evaluation of its governance arrangements by June 2020. This review should consider the quality of reporting, and be informed by the specific responsibilities of charitable trustees.

Annual Governance Statement

We reviewed the Governance Statement within the financial statements against the requirements outlined in the SFC's 2018/19 Accounts Direction. 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:

The College has disclosed a number of weaknesses within the Governance Statement.

- Ensuring that the College has met all requirements of the SFC's 2018/19 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
- 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.

As a result of this review, the College used the Governance Statement to make a number of disclosures about weaknesses identified during the year, including:

- Procurement weaknesses, including the lack of purchase orders and failures to comply with procurement rules (refer to Page 34);
- The failure to seek approval for settlement agreements, in line with the requirements of the Financial Memorandum;
- Payroll weaknesses identified by the College's internal auditors;
- Failure to comply with the Board's equality duties, including publication of the equality outcome and mainstreaming report by April 2019;
- Failure to produce financial statements in line with the deadline set within the 2018/19 Accounts Direction.

Recommendation 12: The College should review the quality of the Governance Statement against good practice guidance to ensure that it meets users needs.

Management's assessment of compliance with the Code of Good Governance noted full compliance, with the exception of two areas of non-compliance, which have also been disclosed within the governance statement.

The Accounts Direction 2018/19 drew attention to the *Good Practice Note on Improving the Quality of College Annual Report and Accounts – Governance Statements*, which was published by Audit Scotland in May 2019. There was no evidence of review against the good practice note to improve and streamline the Governance Statements. As a result, in our view, the Statement does not focus on how governance arrangements effectively manage risk to support the College's Corporate Strategy.

Internal audit

The College's internal audit service provides an important source of assurance to inform management and the Board's assessment of the College's governance arrangements. We have reviewed the internal audit annual report for 2018/19. Internal audit's opinion for the year was based on its agreed audit plan for 2018/19, as amended and approved by the Audit Committee. For 2018/19 the annual statement of assurance notes that in Internal Audit's opinion, the College has adequate and effective arrangements for risk management, control and governance, with the exception of three significant issues identified during the year:

The HR and Payroll Systems, issued in September 2019, identified a significant number of issues regarding payroll transactions, with some staff being underpaid and others being overpaid. There were a range of weaknesses in existing processes including user access permissions, weaknesses that could allow HR and Payroll staff to generate unauthorised payments, and payroll variance reports and monthly payroll checklists were not always held on file or were not signed as evidence of formal review.

Testing on national insurance contributions examined payments over the three preceding financial years highlighted an underpayment of contributions. A voluntary disclosure has subsequently been made to HMRC and provision has been made within the financial statements for management's estimate of the financial impact.

Internal audit also noted that the College has made limited progress in implementing internal audit recommendations. Internal audit noted that only four of the 19 recommendations that were due to be implemented have been assessed as fully complete.

Risk management

The College has an established Strategic Risk Management process. The College's approach to risk management is set out within the risk management policy, which is available on the College website. This was formally approved by the Board in 2016 and most recently reviewed in 2018. The Senior Management Team regularly considers and updates the College's risk register.

Throughout 2018/19, the key strategic risks were reported to and monitored by the Audit Committee at each of their meetings. We do, however, consider that the Board should formally review the risk register as part of its overall assessment of progress against the Strategic Plan and that further work is required to embed risk management across the College.

While risks remain for all public sector bodies, we are satisfied that the College's arrangements to prepare for EU withdrawal are appropriate and informed by wider sector involvement.

EU withdrawal

As in 2017/18, Audit Scotland has maintained an interest in public bodies' preparedness for EU withdrawal. We assessed the College's arrangements against three key factors, relating to the workforce, funding and regulations.

The College's response and preparations for Brexit have been led by the SMT. Brexit is a key risk within the College's risk register and has been subject to regular updates throughout the year. The Plan draws on external guidance including publications from the Scottish Funding Council. The College has undertaken a range of actions, including:

- identifying individuals that may be directly impacted, including staff and students both currently enrolled in courses and applicants for next year;
- evaluation of the expected financial impact, including European Social Funding and tuition fees; and
- development of the Business Development Strategy and International Strategy to diversify income in the future.

Correspondence received from Audit Scotland

In November 2019, Audit Scotland advised us of correspondence that they had received as part of their arrangements to allow members of the public to raise issues of concern with individual public bodies. The correspondence highlighted a number of areas of concern in relation to financial management and governance weaknesses. The UHI Chief Internal Auditor has led the investigation of the allegations. While not formally relying on the work of internal audit, we have liaised to ensure that we have not duplicated findings and recommendations. We considered the implications of his report, and will follow up the status of improvement actions as necessary in 2019/20.

National Reports

It is important that the College has embedded arrangements to ensure that consideration is appropriately given to national reports published by Audit Scotland. At present, national reports are reviewed by management and the impact on the College is considered. These will be presented to the Board or relevant committee where necessary. The Board should consider ensuring that key national reports are shared with Board members as a matter of course.

Value for Money

The College has reviewed the effectiveness of balanced scorecard reporting during 2018/19, but the current scorecard does not provide metrics for key indicators. We also note that the Board has received only an interim performance report for 2018/19, but that 40% of targets have not been achieved.

Significant procurement weaknesses have been identified and disclosed within the College's governance statement.

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Strategic Plan 2019-21

The College's Strategic Plan 2019-21 was published in June 2016. Performance has been reviewed against the four strategic objectives within a balanced scorecard covering:

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

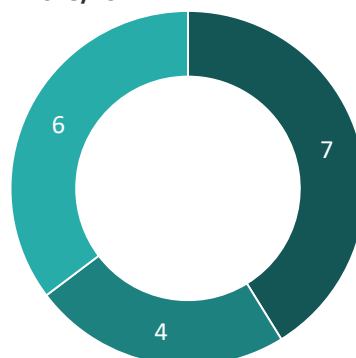
Recommendation 13: Performance reporting should be reviewed to ensure that it is timely and provides sufficient information to allow robust scrutiny.

Throughout 2018/19, the College reviewed the format of the Balanced Scorecard, which included consultation with relevant committees. However, the College has not yet fully reported on performance for 2018/19 against priorities. An interim progress report was presented to the Board in December 2019. This included information gaps, particularly against Student Activity Measures.

Exhibit 8 highlights that the College missed the target for over 40% of the measures for which data is available.

Exhibit 8: College missed the target set for over 40% of the key performance indicators reported to date in 2018/19

- Missed target
- Progress maintained
- Target achieved



Source: Perth College Balanced Scorecard Interim Report, December 2019

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. The College has published the results for 2018/19, with its commentary in January 2020. However, we noted that reporting was limited to the indicators adopted and published by the SFC, rather than the wider performance measures that the College has assessed as key to delivering the Strategic Plan.

Procurement arrangements

During 2018/19, the College identified potential procurement weaknesses. To allow the College to understand the issues, the Head of Supply Chain for the UHI Partnership completed an audit of the College's systems, processes and procedures and found significant areas of non-compliance.

The College has seconded a Procurement Manager from APUC to support improvements, but during the audit we identified a number of areas of weaknesses including:

- The catering contract has not been subject to tender since 2004.
- A non-competitive quote was used to procure building works with a value of £98,265 without justification or approval of the Regional Strategic Body. This breaches the requirements of the Financial Memorandum with UHI.
- For the vast majority of purchases subject to audit (over 80%), no purchase orders were completed.

The College has identified a number of improvement actions, including the development of a contracts register and instigation of a tendering process for the catering arrangements. As part of the improvements made to the financial statements, the College also disclosed the weaknesses within the 2018/19 Governance Statement.

Recommendation 14:
The College must ensure that procurement weaknesses are addressed as a matter of urgency.



Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit and Risk Committee

D – Action plan

E – Follow up of prior year recommendations

F – Adjusted errors identified during the audit

G – 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 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 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 14 May 2019.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the Board consider the facts known collectively to you and come to a view.

Audit Fees

As we outline within Exhibit 1 to this report, the scope and level of testing required to finalise our opinion on the financial statements has been substantially increased. We have signalled to management that there will be a significant level of fee variation to reflect the scale of work required.

We will discuss the level of fee variation with the Principal and Vice Principal – External on conclusion of our work, and report our final fee to a future meeting of the Audit Committee.

	2018/19	2017/18
Component of fee:		
Total agreed auditor remuneration	£18,280	£14,930
Fee variation	£TBD	-
Audit Scotland fixed charges:		
Pooled costs	£880	£960
Audit support costs	£930	£830
Total fee	£TBD	£16,720

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 2019 UK Transparency Report, can be accessed on our website at [https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf). The report explains 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 since appointment can be found at: www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf.

Appendix C: Required Communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> • 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 • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>

Required communication	Our reporting to you
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	<p>No significant matters have been identified.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Annual Audit Plan</p> <p>This Annual Audit Report – Appendix B</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report – no significant deficiencies reported</p>
<p>Group audits</p> <ul style="list-style-type: none"> • An overview of the type of work to be performed on the financial information of the components • 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 • 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 • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • 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 	<p>Annual Audit Plan</p> <p>This Annual Audit Report</p>
<p>Subsequent events</p> <p>Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>

Appendix D: Action Plan

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

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The College was unable to produce compliant financial statements within the deadline agreed as part of the planning process, or within the SFC's 2018/19 Account Direction requirements. The draft financial statements were subject to a significant level of error and omission.	Significant improvements are required to the financial closedown procedures and preparation of the financial statements to ensure timely and accurate completion of financial statements. <i>Grade 1</i>	The SMT acknowledges delays with compliant financial statements due to staff changes resulting in insufficient capacity and capability within the Finance Team together with the use of manual procedures. Actions <ol style="list-style-type: none"> 1. Review Structure of Finance Team including the appointment of a Financial Director on SMT - complete 2. Transition existing manual financial processes to electronic 3. Develop a revised approach and timetable for the production of financial statements Responsible officer: VP/ HoF Implementation date: March 2020

Key:

SMT – Senior Management Team

VP – Vice Principal

HoF – Head of Finance

HoHR&OD – Head of Human Resources and Organisational Development

HoEst – Head of Estates

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 / or risk	Recommendation / grading	Management response / Implementation timeframe
2	<p>Audit testing identified a significant level of error, particularly within accruals testing. We would not normally expect to find the level of error where effective management review processes are in place.</p>	<p>The finance team must ensure that quality assurance and review processes are in place throughout the year to reduce the risk of fraud or error.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>A significant level of staff turnover within the Finance team has resulted in loss of institutional knowledge and continuity and consistency of service.</p> <p>Many of these errors related to previous financial years resulting in increased delays in the completion of the 2018/19 audit and impacted the final Adjusted Operating Position.</p> <p>SMT, the College Chair and wider Board were aware of ongoing capacity issues within the Finance Team and all had expressed frustrations at the impact this had on late papers and the availability of information on which to base decisions. This continues to be addressed by SMT.</p> <p>Permanent appointments of vacant roles were made to ensure temporary appointments and staff turnover was no longer an issue. With the resignation of the previous Head of Finance, an interim appointment has been made pending the appointment of a Financial Director. The team is now more stable and will continue to be supported and developed to ensure outstanding issues are addressed effectively.</p> <p>Action Implement quality control and review processes across all transactions.</p> <p>Responsible officer: VP/HoF Implementation date: March 2020</p>

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
3	As part of the additional work we were asked to perform on deferred income, we noted that management records and communication across College departments were ineffective. There is therefore a risk that income is not reflected accurately within financial statements.	The Finance Team should review the processes in place to record and track all sources of income. <i>Grade 1</i>	The deferred income issue was raised with our External Auditors in March 2019 and was reported to Audit, FGPC, Chairs Committees and the Board, as well as to SFC in February 2019. Regular updates were provided as the situation developed. Discussions concluded with External Audit in August 2019 when it was confirmed that income could be appropriately released into 2018/19 with a non-material amount of deferred income relating to previous financial years. Actions An improved budgeting and contract management process to record and monitor performance milestones is underway. Improved communication between Finance and College teams to plan and monitor income and expenditure. Responsible officer: VP/ HoF Implementation date: March 2020

Classification of recommendations

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
4	The revised SORP will be effective for financial periods beginning on or after 1 January 2019 and therefore will be applied by the College within their 2019/20 financial statements.	The College should conduct an impact assessment on the implementation of the revised SORP. <i>Grade 3</i>	Complete impact assessment on implementation of revised SORP Responsible officer: HoF Implementation date: July 2020
5	We consider that the Finance Team overall has had insufficient knowledge and experience, particularly in financial accounting, since December 2018.	The College must review the capacity and capability within the finance team to ensure that skills gaps are addressed. The Board needs to urgently ensure that there are appropriate arrangements established to provide strategic financial leadership. <i>Grade 1</i>	The structure and resourcing of the Finance Team has been an ongoing focus of SMT with additional resources being 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. Actions SMT have already approved a structure review of Finance. SMT have recommended the appointment of a Director of Finance and this will be considered by the Remuneration Committee. Implement a CPD plan across the Finance Team Responsible officer: Principal/ HoF Implementation date: April 2020

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
6	We noted that key financial reports to the Board and committees were provided late, tabled on the day or replaced by verbal updates. In our view this is unacceptable and undermines the Board's ability to monitor financial performance.	Financial reporting must be significantly improved to support Board member scrutiny. <i>Grade 1</i>	The Finance Team capacity issues reflected above have been an ongoing focus by SMT with the support of the Board. Actions already taken have addressed the continuity issues within the team and to enable fully compliant Board financial monitoring. Action Ensure robust financial reports are provided ahead of Committee and Board meetings. Responsible officer: Principal/VP Implementation date: February 2020

Classification of recommendations

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
7	<p>Our work has identified ongoing weaknesses in internal controls, including:</p> <ul style="list-style-type: none"> Reliance on paper based systems, which led to problems in relation to the retention of financial records. Lack of segregation of duties, including inadequate review of journal entries and lack of purchase orders. 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. Significant delay in the transition to the Government Banking Service leading to the maintenance of unnecessary bank accounts. 	<p>The College must improve key financial controls to ensure that the weaknesses identified are addressed at pace.</p> <p style="text-align: center;"><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 added 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"> Internal Audit Action Plan commissioned and partially actioned Affected staff informed of issue and steps being taken to rectify and recompense Amended the payroll system user access rights to ensure that these are appropriate for user roles and remove all generic users from the payroll system 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 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. Internal Audit commissioned to conduct evaluation of pensions and tax payments Voluntary HMRC Disclosure made <p>Future Actions</p> <ol style="list-style-type: none"> Develop transition plan towards electronic systems. Work underway towards consistent use of Purchase Orders Introduce quality monitoring of journal entries Complete bank transition <p>Responsible Officer: VP/HoF</p> <ol style="list-style-type: none"> Investment in a managed service for CiphR underway <p>Responsible Officer: HoHR&OD</p> <ol style="list-style-type: none"> Implement Fixed Asset Register <p>Responsible Officer: HoEst</p> <p>Implementation date: June 2020</p>

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
8	<p>The College did not participate with the NFI exercise until December 2019. We also note that the Fraud Response Plan does not refer to the exercise, or the need to resource or investigate the follow up of matches.</p>	<p>The College should ensure that the Fraud Response Plan is updated to reflect the investigation of matches identified through the NFI exercise.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The previous Head of Finance had engaged with NFI but had not fully completed the testing of the matches within the specified deadlines.</p> <p>Once SMT became aware of this in December 2019, action was taken immediately to register key staff and to investigate the matches.</p> <p>Action</p> <p>Update Fraud Response Plan to reflect the investigation of matches identified through NFI</p> <p>Responsible officer: HoF Implementation date: June 2020</p>

Classification of recommendations

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
9	The Board was given insufficient time and strategic financial support to allow effective scrutiny of the key assumptions underpinning the Financial Forecast Return.	The Financial Forecast Return should be presented in sufficient time to ensure that the Board has an opportunity to influence key assumptions prior to submission. <i>Grade 1</i>	The capacity within the Finance Team together with sources of income channelled through UHI not being fully confirmed resulted in delays in finalising the College budget for 2019/20. SMT worked hard to ensure the robustness of the budget and the savings required to be achieved during the year. This budget was ultimately approved at the October Board. This had a knock on effect to the development of the FFR. SMT and the Board expressed dissatisfaction that there was insufficient time to fully scrutinise the assumptions underpinning the FFR. As a result this is being reviewed to determine any revisions to be made. Actions Revise FFR for 2019/20 to ensure accuracy Implement scenario planning exercise with College Board to inform 2020/21 FFR Responsible officer: HoF Implementation date: May 2020

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
10	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. <i>Grade 1</i>	Rationale included within Finding 9. Actions Develop alternative scenarios, modelling and fiscal/ budget assumptions to more accurately forecast and monitor future financial impacts Undertake CMT and Board Development sessions on the creation of the FFR for 2021-26 Responsible officer: Principal Implementation date: May 2020
11	We noted a number of instances where reporting to the Board was ineffective and may not support Board members' specific responsibilities as charitable trustees. Examples include: <ul style="list-style-type: none"> • Key decisions on senior staffing structure • The Board did not consider the 2018/19 budget, but noted the minutes of the F&GP committee. • The 2019/20 Budget was approved in October 2019, following the start of the financial year. • The Board does not receive the risk register or financial monitoring updates. 	We understand that the College will receive an external evaluation of its governance arrangements by June 2020. This review should consider the quality of reporting, and be informed by the specific responsibilities of charitable trustees. <i>Grade 1</i>	See Responses in 2, 5, 6 and 9 The College risk register process has already been reviewed and updated with risks monitored at all committee and board meetings. This is managed by the Clerk to the Board with each SMT member owning specific risks and the relevant committees monitoring the progress against these risks. The full register has now been included within all Board meetings. Actions Review the College's Annual Governance plan to ensure approvals are obtained based on robust and timely information Board agendas to include Financial monitoring updates Review the process for reporting and approval of settlement agreements Responsible officer: Principal/ Board Clerk Implementation date: March 2020

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
12	The College has not undertaken a review of the Governance Statement against the good practice guidance referred to within the Accounts Direction.	The College should review the quality of the Governance Statement against good practice guidance to ensure that it meets users needs. <i>Grade 2</i>	The College has already created a document reflecting the evidence of its compliance against the Governance Statement. This will be further reviewed to ensure this data is fully and fairly reflected within the Governance Statement. Action Review and implement the good practice guidance to ensure the quality of the Governance Statement Responsible officer: VP/ Board Clerk Implementation date: March 2020

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
13	The Balanced Scorecard is under development but the most recent report to December 2019 provided only an interim report on 2018/19 performance. We also noted that a number of indicators were RAG rated only, but the actual metrics were not reported. This may be insufficient for effective scrutiny.	Performance reporting should be reviewed to ensure that it is timely and provides sufficient information to allow robust scrutiny. <i>Grade 2</i>	<p>The College has undertaken a significant amount of work in reviewing the Balanced Scorecard. This has been consulted on across the College and at all Committees and at the Board.</p> <p>The revised Balanced Scorecard format is reported at all committee and board meetings.</p> <p>The timings of the completion of the full balanced scorecard has been delayed this year due to the delay in the production of the Financial Statements. The final 2 measures of AOP and % of non SFC turnover were unable to be included until the Financial Statements were completed.</p> <p>The College is always receptive to recommendations for improvements and will further review the current format to ensure that it provides the best possible monitoring information.</p> <p>Actions</p> <p>Implement further improvements to the Balanced Scorecard to include actual metrics and reporting timelines.</p> <p>Responsible officer: Principal/ Board Clerk</p> <p>Implementation date: March 2020</p>

Classification of recommendations

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
14	The College has disclosed a number of significant weaknesses in procurement within its Governance Statement, including lack of competitive tenders for material contracts.	The College must ensure that procurement weaknesses are addressed as a matter of urgency. <i>Grade 1</i>	<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>There have been 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 had been in place since 2004 and which is subject to a current retender process and secondly a contract that required reporting to RSB which was undertaken retrospectively. SMT acknowledges these areas of non-compliance.</p> <p>SMT have already implemented a control system which includes:</p> <ul style="list-style-type: none"> • APUC contract in place • Revision of Procurement Strategy and Procedures • Contracts register enabling forward planning of contract values, tenders and renewals • Greater use of APUC Frameworks • Implementing a consistent purchase order system • Retendering of non-compliant contracts • Discussions with RSB on rationales for exemptions to tender <p>Responsible officer: VP Implementation date: June 2020</p>

Appendix E: Follow up of prior year recommendations

This section of our report summarises our assessment of the College's progress against the recommendations that we identified during our 2017/18 audit.

Prior year recommendations			
No.	Recommendation / grading	Management response/ Implementation timeframe	Our assessment of progress
1	<p>Management is sighted as to the requirement for savings to be delivered over the next five years and has begun reviewing possible avenues for delivery.</p> <p>As the College develops these plans it is important that these are quantified in a detailed medium term financial plan which aligns to FFRs and strategic and operational plans.</p> <p>The College's future financial forecast should be reviewed, not just annually with each submission, but as significant updates are required as saving programmes are identified or assumptions crystalize. Any significant changes should be communicated to UHI as the regional strategic body, and the SFC if appropriate. Should sufficient savings not be identified to address forecast deficits in the next financial period, management should consider alternate action with the regional strategic body.</p> <p><i>Grade 1</i></p>	<p>Agreed. To be completed through the 2018/19 financial year.</p> <p>Updated response – February 2020</p> <p>Changes in the Finance Team, including at Senior Management Team level resulted in this recommendation not being implemented fully.</p> <p>In line with the responses to the 2018/19 Audit Report, the SMT appointment of a Financial Director; increased Board financial reporting; early change notification to RSB will improve FFR's alignment with strategic and operational plans.</p>	<p>As we report within Financial Sustainability, we consider that strategic financial planning remains inadequate.</p> <p>Audit Assessment: Not yet complete.</p>

Appendix F: Errors identified during the audit

This table sets out the adjustments processed in the financial statements finalisation above our reporting threshold [subject to finalisation of our audit procedures].

Adjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Adjusting accounting treatment of SITS debtor</i>	Cr Tuition Fee Income £57,970		Dr Debtors £57,970
2	<i>Capitalisation of assets and treatment of capital grant</i>	Cr Expenditure £345,629 Dr Income £345,629		Dr Debtors £345,629 Cr Deferred Capital grants £345,629
3	<i>Recognition of depreciation and deferred capital grant release on newly capitalised assets</i>	Dr Depreciation £48,603 Cr Income £48,603		Dr Deferred Capital grants £48,603 Cr Accumulated Depreciation £48,603
4	<i>Reallocation of expenditure incorrectly classified</i>	Dr Other Operating Expenditure £46,193 Cr Payroll Expenditure £46,193		
5	<i>Correct accounting for pension liability</i>		Dr Actuarial Loss £1,088,000	Cr Pension liability £1,088,000
6	<i>Being increase to national insurance liability</i>	Dr Payroll costs £141,533		Cr Accruals £141,533
7	<i>Removal of income for telephone masts which relates to previous financial years</i>	Dr Other income £42,229		Cr Accrued income £42,229
8	<i>Correction of sales invoice posted to 2018/19 in error</i>	Dr Residences Income £23,179		Cr Debtors £23,179

Appendix F: Errors identified during the audit

Adjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
9	<i>Correction to accounting for 2019/20 NDR expenditure</i>			Dr Creditors £62,417 Cr Prepayments £62,417
10	<i>Reversal of capital additions which relate to 2019/20</i>	Dr Grant income £2,795 Dr Expenditure £27,951 Cr Depreciation Expense £2,795 Cr Capital Maintenance Grant £27,951		Dr Accumulated Depreciation £2,795 Dr Deferred Capital Grants £25,156 Cr Assets – Fixtures and Fittings £27,951
11	<i>Being reversal of depreciation charged not in line with policy</i>	Dr Grant income £35,129 Cr Depreciation Expense £35,129		Dr Accumulated Depreciation £35,129 Cr Deferred Capital Grants £35,129
12	<i>Correction of accrued research income</i>	Dr Research Income £49,457		Cr Accrued Income £49,457
13	<i>VAT adjustment</i>	Dr Expenditure £44,168		Dr VAT Debtor £587 Cr VAT Creditor £44,755

Adjusted differences

No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
14	<i>Correction of accruals which do not relate to 2018/19</i>	Cr Expenditure £240,999		Dr Accruals £240,999
15	<i>Correction of tuition fee income for 2019/20 not received in advance</i>			Dr Deferred income £38,480 Cr Debtors £38,480
16	<i>Accrual of gift aid income from subsidiary</i>	Cr Gift aid income £225,435		Dr Accrued Income £225,435
17	<i>Being AFS adjustment</i>	Dr Grant income £4,000 Cr Depreciation Expense £5,744	Cr Revaluation Gain £54,641	Dr Assets Held for Sale £230,000 Dr Accumulated Depreciation £37,585 Cr Assets – Cost £207,200 Cr Deferred Capital Grants £4,000
18	<i>Correction of annual leave accrual</i>	Dr Payroll expenditure £44,999		Cr Accruals £44,999

Adjusted differences

No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
19	<i>Correction of National insurance liability</i>			Dr Accruals £250,000 Cr Provisions £250,000
20	<i>Increase in relation to accrual of ESIF income</i>	Cr Grant Income £120,382		Dr Accrued Income £120,382
21	<i>Release of Foundation Apprenticeship income relating to 2017/18</i>	Cr Income £223,398		Dr Deferred Income £223,398
22	<i>Release of LUPS income relating to 2016/17</i>	Cr Income £118,977		Dr Deferred Income £118,977
Overall Impact		TBD	TBD	TBD

This table sets out the unadjusted differences above our reporting threshold [subject to finalisation of our audit procedures] in relation to the College.

Unadjusted differences

No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Recognition of Development Trust</i>	TBD		TBD

This table sets out the adjustments processed in the financial statements finalisation above our reporting threshold [subject to finalisation of our audit procedures] in relation to AST (Engineering) Limited.

Adjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Correction of accounting for NDR liability</i>			Dr Trade creditors £31,925 Cr Prepayments £31,925
2	<i>Recognition of tuition fee income</i>	Cr Tuition Fee Income £17,022		Dr Accrued Income £17,022
3	<i>Correction of expenditure accruals</i>	Dr Expenditure £5,034		Cr Accruals £5,034
4	<i>Correction to tuition fee income</i>	Dr Tuition Fee Income £4,659		Cr Accrued Income £4,659
5	<i>Tuition fee income not recognised</i>	Cr Tuition Fee Income £33,365		Dr Accrued Income £33,365
6	<i>Correction of prepaid fees</i>	Dr Tuition Fee Income £3,571		Dr Deferred income £119,884 Cr Debtors £123,455
7	<i>Accrual of gift aid income from to parent</i>	Dr Gift aid distribution £225,435		Cr Accruals £225,435
8	<i>Recognition of annual leave accrual</i>	Dr Payroll Expenditure £4,765		Cr Accruals £4,765

This table sets out the unadjusted differences above our reporting threshold [subject to finalisation of our audit procedures] in relation to AST (Engineering) Limited.

Unadjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Correction of accrual</i>	Cr Expenditure £2,439		Dr Accruals £2,439

Appendix G: 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 2018/19 audit cycle.

	Audit Activity	Deliverable	Timing
MAR			
APR	<ul style="list-style-type: none"> Review of current issues impacting the College throughout the audit process 	Periodic current issues return submission	22 March 2019 8 November 2019
MAY	<ul style="list-style-type: none"> Audit planning and setting scope and strategy for the 2018/19 audit 	Annual audit plan	6 June 2019
JUNE	<ul style="list-style-type: none"> Walkthrough visit 	Completion of internal documentation	24 June 2019
AUG	<ul style="list-style-type: none"> Review progress of the NFI exercise 	Submit NFI questionnaire	30 June 2019
SEPT			
OCT	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Audited financial statements	October 2019
NOV	<ul style="list-style-type: none"> Conclude on results of audit procedures and finalise Annual Audit Report 	Issue Annual Audit Report	20 February 2020
DEC	<ul style="list-style-type: none"> Issue opinion on the College's financial statements 	Submit Audit Scotland Minimum dataset request	

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Committee	Extraordinary Meeting of Finance and General Purposes Committee and Audit Committee
Subject	Payroll – Pension Contributions 2019/20
Date of Committee meeting	11/02/2020
Author	Veronica Lynch, Vice Principal External Engagement
Date paper prepared	06/02/2020
Executive summary of the paper	<p>This paper seeks approval of the actions the College will take to address issues identified by Henderson Loggie in their report entitled Payroll – Pension Contributions 2019/20</p> <p>It is recommended that the Committee:</p> <ol style="list-style-type: none"> 1. Note the fieldwork and recommendations made by Henderson Loggie in their report. 2. Approve the actions, responsibilities and timelines set out by the Interim Head of Finance and the Head of Human Resources & Organisational Development.
Consultation How has consultation with partners been carried out?	Consultation has been undertaken with Henderson Loggie, the College's Internal Auditors. HMRC have been made aware that there is an issue. Both the pension funds impacted on have been informed.
Action requested	<input type="checkbox"/> For information only <input type="checkbox"/> For discussion <input type="checkbox"/> For recommendation <input checked="" type="checkbox"/> For approval

<p>Resource implications (If yes, please provide details)</p>	<p>Yes/ No The actions acknowledged by the College will require a reasonable amount of work from both the Finance & HR functions.</p>
<p>Risk implications (If yes, please provide details)</p>	<p>Yes/ No There is a risk that if the deadlines for clearing the backlog of issues is not completed then affected staff members and pension funds will take action against the college.</p>
<p>Link with strategy Please highlight how the paper links to the Strategic Plan, or assist with:</p> <ul style="list-style-type: none"> • Compliance • National Student Survey • partnership services • risk management • other activity [e.g. new opportunity] – please provide further information 	<p>This project supports the delivery of the strategic aim Financial sustainability</p> <p>This paper assists with risk management, compliance with legal duties and with the Code of Good College Governance.</p>
<p><u>Equality and diversity</u> Yes/ No If yes, please give details:</p>	<p>Click or tap here to enter text.</p>
<p>Island communities Does this activity/ proposal have an effect on an island community which is significantly different from its effect on other communities (including other island communities)?</p>	<p>Yes/ No If yes, please give details: Click or tap here to enter text.</p>

<p><u>Data Protection</u></p> <p>Does this activity/ proposal require a Data Protection Impact Assessment?</p>	<p>Yes/ No</p> <p>Set out any data protection aspects and whether a data protection impact assessment is needed</p>
<p>Status (e.g. confidential/non confidential)</p>	<p>Confidential</p>
<p>Freedom of information</p> <p>Can this paper be included in “open” business?* -Yes</p>	<p>Papers should be open unless there is a compelling reason for them to remain closed. If a paper, or parts of a paper, are to remain closed the reason for that exemption must be specified – see reasons below</p>

* If a paper should **not** be included within ‘open’ business, please highlight below the reason.

<p>Its disclosure would substantially prejudice a programme of research</p>	<input type="checkbox"/>	<p>Its disclosure would substantially prejudice the effective conduct of public affairs</p>	<input checked="" type="checkbox"/>
<p>Its disclosure would substantially prejudice the commercial interests of any person or organisation</p>	<input type="checkbox"/>	<p>Its disclosure would constitute a breach of confidence actionable in court</p>	<input type="checkbox"/>
<p>Its disclosure would constitute a breach of the Data Protection Act</p>	<input type="checkbox"/>	<p>Other [please give further details] Click or tap here to enter text.</p>	<input type="checkbox"/>

For how long must the paper be withheld? Until the OBC and FBC are approved and funding awarded to begin the project. This would be for an estimated 12 months.

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<http://www.itspublicknowledge.info/ScottishPublicAuthorities/ScottishPublicAuthorities.asp>
and

http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf

Perth College UHI

**Payroll – Pension Contributions
2019/20**

Internal Audit Report No: 2020/04

Draft issued: 03 February 2020

Final issued: 05 February 2020

LEVEL OF ASSURANCE

Requires improvement

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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk and which requires to be brought to the attention of the Audit Committee
Priority 2	Issue subjecting the College to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.

Management Summary

Overall Level of Assurance

Requires improvement

System has weaknesses that could prevent it achieving control objectives.

Risk Assessment

This review focused on the controls in place to mitigate the following risk on the Perth College UHI ('the College') Risk Register:

- Non-compliance with relevant statutory regulations (risk rating: medium).

Background

As part of the Internal Audit programme at the College for 2019/20 we carried out a review of the accuracy of the organisation's pension fund contributions calculations. The Audit Needs Assessment, completed in September 2016, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management and the Principal that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

HR staff process payroll changes, including pay awards, and record the required changes on spreadsheets or directly on to the HR system. Some specific information from the HR system interfaces through to the payroll system, while other information is directly input into the payroll system by the payroll team.

Scope, Objectives and Overall Findings

This review builds upon the internal audit work conducted during 2018/19 (Internal Audit report 2019/06 - HR and Payroll, which was also graded as 'Requires Improvement') and which highlighted issues around multiple pay numbers and the corresponding potential implications for employers and employees National Insurance and Pension Contributions. Supplementary detailed analysis was conducted in 2018/19, as part of report 2019/06, around National Insurance Contributions for employees with multiple employee numbers and therefore the scope of this audit was to conduct a similar analysis of employer and employee pension contributions going back four financial years (to 1 August 2016).

The table below notes each separate objective for this review and records the results:

Objective	Findings			
	1	2	3	
The objective of our audit was to obtain reasonable assurance that:	No. of Agreed Actions			
1. The calculation of employer pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in.	Requires Improvement	0	1	0
2. The calculation of employee pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in.	Requires Improvement	0	0	0
3. Pension contributions have been deducted and remitted to the relevant pension fund body correctly.	Good	0	0	0
4. The College has arrangements in place to communicate to current or former employees any over or underpayment of pension contributions identified so that proportionate corrective action can be taken to avoid detriment.	Requires Improvement	0	1	0
Overall Level of Assurance	Requirements Improvement	0	2	0
System has weaknesses that could prevent it achieving control objectives				

Audit Approach

Through discussion with HR and Payroll staff we obtained the raw payroll data required to conduct detailed testing to recalculate the employer and employee pension contributions due for a sample of employees for financial years 2016/17, 2017/18, 2018/19 and 2019/20 to identify any overpayments or underpayments. We also carried out testing on the pension contributions for staff from a variety of disciplines across the College to ensure that these deductions have been calculated in line with the relevant pension scheme regulations. We also reconciled the deductions made and checked that these deductions had been reconciled to the payment made to the relevant pension scheme administrator.

Once the analysis was completed, we discussed with the Interim Head of Finance how stakeholders will be informed of any over or underpayments and how an action plan will be developed to manage any corrective action for current and former employees.

Summary of Main Findings

Strengths

- Pension contributions as calculated by the payroll system, were accurately recorded in the finance system and remitted to the relevant pension fund body correctly.

Weaknesses

- Our testing identified several issues which have resulted in the incorrect calculation of employee and employer pension contributions. We note that these errors can partly be attributed to process errors inherent in the payroll system and to weaknesses in the checks undertaken by the payroll team. We also noted that the types of error noted from our testing had been identified by the College in January 2019 and have subsequently been addressed. Results of audit testing conducted for a sample of months after January 2019 confirmed that this was the case.

Acknowledgment

We would like to take this opportunity to thank the staff at the College who helped us during our audit visit.

Action Plan

Objective 1: The calculation of employer pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in; and

Objective 2: The calculation of employee pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in.

To ensure that employee and employer pension contributions had been calculated using the correct contribution rates and on the correct gross pensionable pay, we selected a sample of employees for a sample of months in years 2016/17 to 2019/20. As part of our audit testing, we:

- calculated total hours worked in the month by each employee (including basic hours plus overtime) as part of checks to ensure that pensionable pay did not exceed a maximum of 35 hours per week (151.667 hours per month) as required by the pension scheme.
- established whether overtime payments were included in gross pensionable pay, and therefore pension contribution calculations, specifically where total hours worked in the month exceeded the hourly limits set out in the pension scheme requirements.
- established which pension scheme each employee was making contributions to and that the employee was a bona fide member of that scheme.
- re-calculated expected employee and employer pension contributions and reconciled these to actual contributions recorded and paid by the College.
- obtained explanations for any differences between re-calculated contributions and actual contributions paid to the pension scheme.
- estimated any under or overpayments made with respect of pension contributions.

For the sample of employees tested, we confirmed that overtime payments for full-time staff had not been included in the gross pensionable income used to calculate employee or employer pension contributions, where the total hours worked in the month exceeded the limits set out in the pension scheme.

Our testing identified several issues which have resulted in the incorrect calculation of employee and employer pension contributions. Details of the types of error are included in the following pages. We note that these errors can partly be attributed to process errors inherent in the payroll system and to weaknesses in the checks undertaken by the payroll team. We also noted that the types of error noted from our testing had been identified by the College in January 2019 and have subsequently been addressed. Results of audit testing conducted for a sample of months after January 2019 confirmed that this was the case.

Payroll - Pension Contributions

Objective 1: The calculation of employer pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in; and

Objective 2: The calculation of employee pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in (continued).

Observation	Risk	Recommendation	Management Response
<p>For each month tested within each of the years included in our sample, we found that the employee contribution rates for a small number of employees had been calculated using the wrong pension scheme banding rate (usually 0.1% higher than the correct rate). This was found to be due to additional income received in the month in respect of allowances or supplements, which are non-pensionable (see below), being incorrectly included within the gross pensionable income for the month, thus taking the gross income above the basic monthly income on which the employee pension contributions should be based. However, these errors were only identified in the months leading up to January 2019, at which point the College had identified these type of errors and had applied corresponding corrections to the payroll system.</p>	<p>Pension contributions are calculated incorrectly resulting in overpayments in contributions to the pension fund, financial loss to the College, errors in employee pension fund balances and potentially underpayment of PAYE and National Insurance Contributions.</p>	<p>R1 The College should undertake a full review of the calculation of employee and employer pension contributions made over the period 2013/14 to 2019/20, focussing on gross pensionable pay to ensure that only items eligible under the relevant pension scheme regulations have been included. Where differences in gross pensionable pay are identified the impact on employee and employer pension contributions, as well as any PAYE and National Insurance Contributions, should be quantified.</p>	<p>Management agrees with the recommendation.</p> <p>The approach that will be taken is to deal with issues in 2019/20 before the end of the tax year. Prior years will be dealt with thereafter.</p> <p>To be actioned by: Interim Head of Finance</p> <p>No later than: Year 2019/2020 - 29 February 2020. Years 2013/14-2018/19 - 30 November 2020.</p>
			<p>Grade 2</p>

Payroll - Pension Contributions

Objective 1: The calculation of employer pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in; and

Objective 2: The calculation of employee pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in (continued).

Observation	Risk	Recommendation	Management Response
<p>We found that monthly allowances paid to employees, including first aid, unsocial hours and shift allowances, were incorrectly included within gross pensionable income and therefore this has resulted in overpayments of employee and employer pension contributions.</p> <p>‘Frac Rates’ are additional hours that a lecturer has worked above their contracted hours and they receive accrued holiday pay based on these extra hours worked. These hours are paid at their basic rate of pay. We found a number of instances where full-time academic staff, working 35 hours per week, also received additional ‘Frac Rates’ and ‘Frac Holiday Rates’ as well as ‘Part-Time Lecturer Pay’ which had been included within the employee’s gross pensionable pay for the period. This has resulted in the maximum weekly / monthly hourly limits set out in the pension scheme regulations being exceeded. This has resulted in overpayments of employee and employer pension contributions.</p>	<p>As above.</p>	<p>As above.</p>	<p>As above.</p>

Payroll - Pension Contributions

Objective 1: The calculation of employer pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in; and

Objective 2: The calculation of employee pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in (continued).

Observation	Risk	Recommendation	Management Response
<p>Our testing also established that potentially there may be additional errors in the employee and employer pension contribution calculations for employees who are contracted for less than full-time hours (i.e. less than 35 hours per week) but who receive additional 'Fractional Rates' and who work additional part-time lecturer hours in a month which results in the total hours worked in that month exceeding 151.667 hours (i.e. maximum of 35 hours per week per pension scheme rules). Any payments for hours over the 151.667 hours should not be included in the gross pensionable income and therefore should not be included in the pension contribution calculations. This has resulted in overpayments of employee and employer pension contributions.</p>	<p>As above.</p>	<p>As above.</p>	<p>As above.</p>

Payroll - Pension Contributions

Objective 1: The calculation of employer pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in; and

Objective 2: The calculation of employee pension contributions are accurate and are in line with the pension regulations for the relevant pension schemes which the employee is enrolled in (continued).

Observation	Risk	Recommendation	Management Response
<p>The above noted errors have arisen due to the payroll system incorrectly including ineligible items within the gross pensionable income used to calculate pension contributions. During our audit we identified that the payroll system used by the College has been in place for the previous six years during which time there has been no changes made to the system configurations in relation to pension contribution calculations. Therefore, it is likely that the errors identified during our sample testing, as described above, have been present throughout the period 2013/14 to 2018/19.</p> <p>It is difficult to accurately estimate the overpayment of pension contributions based on a sampling approach given the number of variables present, e.g. number of employees on the payroll each month, changes in pensions scheme contributions rates, number of employees in receipt of allowances and supplements and the value of those (which vary month by month). However, our broad estimate of the overpayment of the combined employee and employer contributions for 2018/19 would be approximately £66k. In order to accurately quantify the error at individual employee and cumulative level, monthly payroll reports would need to be analysed for every employee for every month covering financial years 2013/14 to 2018/19, the period since the payroll system was last configured.</p>	<p>As above.</p>	<p>As above.</p>	<p>As above.</p> <p>The payroll department have obtained an up to date list from SPPA of which employees are in which of their two schemes. The number of employees in the 2015 scheme where overpayments may have occurred are 25 (approx. 10% of all SPPA employees). Not all of these will have done extra hours, so we feel that the figure of £66k is high. Exact calculations will need to be done for previous years as some employees have moved between the two SPPA schemes.</p>

Payroll - Pension Contributions

Objective 3: Pension contributions have been deducted and remitted to the relevant pension fund body correctly.

For the sample of months tested at objectives 1 and 2 we identified (from payroll reports) the total value of employee and employer contributions due to each pension scheme for the period, and we agreed those amounts to the pension control account in the finance system and that that these had been paid through the College's bank account. In all instances our testing proved satisfactory.

Payroll - Pension Contributions

Objective 4: The College has arrangements in place to communicate to current or former employees any over or underpayment of pension contributions identified so that proportionate corrective action can be taken to avoid detriment.

Observation	Risks	Recommendation	Management Response	
<p>The issues identified under objective 1 and objective 2 above, may potentially also have an impact on the calculation of employee PAYE and employee and employer National Insurance Contributions deducted at source over the period from 1 August 2013 to 31 July 2019.</p> <p>In addition, the overpayment of pension contributions may impact on each employee’s final pension fund balance, and the estimated value of pension fund assets and liabilities.</p> <p>Issues identified in this report will apply to both current and former employees of the College that are, or were, members of the pension schemes offered during 2013/14 to 2018/19. Once the impact on pension contributions has been reliably quantified the College should ensure that its arrangements for communicating any impact that this has on pension fund balances or tax liabilities should include both former as well as current employees.</p>	<p>Pension contributions are incorrectly calculated, resulting in overpayments in contributions to the pension fund, financial loss to the College, errors in employee pension fund balances and potentially underpayment of PAYE and National Insurance Contributions.</p> <p>Stakeholders, including pension fund members, the pension fund administrators, the Scottish Funding Council and HMRC are not notified of any relevant consequences arising from incorrect calculations and payments.</p>	<p>R2 Once a full analysis of pension fund contributions has been performed and the financial impact quantified (R1), for both current and former employees (including any further tax implications), ensure that a clear strategy and timeframe are developed for addressing and communicating any financial impact that may affect current and former pension scheme members, the pension funds or the College.</p>	<p>Management agrees with the recommendation.</p> <p>Calculations will be done to identify any overpayments and payroll will work with HR in communicating with affected staff.</p> <p>To be actioned by: Interim Head of Finance and Head of HR and Organisational Development</p> <p>No later than: Year 2019/2020 by 29 February 2020. Years 2013/14-2018/19 by 30 November 2020</p>	
			Grade	2

Aberdeen

45 Queen's Road
Aberdeen
AB15 4ZN

T: 01224 322100

Dundee

The Vision Building
20 Greenmarket
Dundee
DD1 4QB

T: 01382 200055

Edinburgh

Ground Floor
11-15 Thistle Street
Edinburgh
EH2 1DF

T: 0131 226 0200

Glasgow

100 West George Street
Glasgow
G2 1PP

T: 0141 471 9870

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Committee	Audit Committee
Subject	Draft Audit Committee Annual Report 2018/19
Date of Committee meeting	11/02/2020
Author	Veronica Lynch, Vice Principal External Engagement
Date paper prepared	05/02/2020
Executive summary of the paper	<p>Under the College's current Financial Memorandum, the Audit Committee is required to produce an annual report to the Board of Management, primarily to provide an assessment of the adequacy and effectiveness of the College's system of internal control.</p> <p>Recommendation</p> <p>The Audit Committee is requested to consider and where appropriate revise the report for submission and approval to the Board of Management at its meeting on 20 February 2020.</p>
Consultation How has consultation with partners been carried out?	The content has been drafted based on consultation with External Auditors, EY.
Action requested	<input type="checkbox"/> For information only <input checked="" type="checkbox"/> For discussion <input type="checkbox"/> For recommendation <input checked="" type="checkbox"/> For approval
Resource implications (If yes, please provide details)	Yes/ No Implementation of the control weaknesses outlined in the report will require resources from SMT, Finance, HR and other key staff across the College.
Risk implications	Yes/ No

(If yes, please provide details)	<p>There is a risk that the implementation plans to address the control weaknesses are delayed.</p> <p>Mitigation –SMT have prioritised the implementation of actions to address these weaknesses. Agreement on timeline of other deadlines can be implemented as required.</p>
<p>Link with strategy</p> <p>Please highlight how the paper links to the Strategic Plan, or assist with:</p> <ul style="list-style-type: none"> • Compliance • National Student Survey • partnership services • risk management • other activity [e.g. new opportunity] – please provide further information 	<p>Provide a summary of the how the paper links to key College priorities and what they are</p> <p>This project supports the delivery of the strategic aim</p> <p>Financial sustainability</p> <p>This paper assists with risk management, compliance with legal duties and with the Code of Good College Governance.</p>
<p><u>Equality and diversity</u></p> <p>Yes/ No</p> <p>If yes, please give details:</p>	<p>Click or tap here to enter text.</p>
<p>Island communities</p> <p>Does this activity/ proposal have an effect on an island community which is significantly different from its effect on other communities (including other island communities)?</p>	<p>Yes/ No</p> <p>If yes, please give details:</p> <p>Click or tap here to enter text.</p>
<p><u>Data Protection</u></p> <p>Does this activity/ proposal require a Data Protection Impact Assessment?</p>	<p>Yes/ No</p> <p>Set out any data protection aspects and whether a data protection impact assessment is needed</p>

Status (e.g. confidential/non confidential)	Confidential
Freedom of information Can this paper be included in “open” business?* -Yes	Papers should be open unless there is a compelling reason for them to remain closed. If a paper, or parts of a paper, are to remain closed the reason for that exemption must be specified – see reasons below

* If a paper should **not** be included within ‘open’ business, please highlight below the reason.

Its disclosure would substantially prejudice a programme of research	<input type="checkbox"/>	Its disclosure would substantially prejudice the effective conduct of public affairs	<input checked="" type="checkbox"/>
Its disclosure would substantially prejudice the commercial interests of any person or organisation	<input type="checkbox"/>	Its disclosure would constitute a breach of confidence actionable in court	<input type="checkbox"/>
Its disclosure would constitute a breach of the Data Protection Act	<input type="checkbox"/>	Other [please give further details] Click or tap here to enter text.	<input type="checkbox"/>

For how long must the paper be withheld? Until the OBC and FBC are approved and funding awarded to begin the project. This would be for an estimated 12 months.

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and

http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf

Draft Audit Committee Annual Report to the Board of Management Academic Session 2018-19

1 Introduction

The Funding Council's mandatory requirements require the Audit Committee to produce a report to the Board of Management primarily to provide an assessment of the adequacy and effectiveness of the College's system of internal control.

The Smith Guidance to Audit Committees also suggests that this annual report should focus on internal financial control and be provided to the Board prior to the signing of the financial statements and the Board's statement of responsibilities in particular.

This report covers the accounting period of 12 months to 31 July 2019.

The terms of reference of the Audit Committee are attached for information at **Appendix 1**. During the period under review the Committee met on 4 occasions: 18 September 2018, 28 November 2018, 19 February 2019 and 14 May 2019. Details of the membership of the Committee during this period are shown at **Appendix 2**.

2 Internal Audit

Henderson Loggie were re-appointed as the College's Internal Auditors in July 2016 for the period 1 August 2016 to 31 July 2020.

An updated Audit Needs Assessment (ANA), based on the areas of risk that the College is exposed to, was prepared as part of the internal audit programme for 2014/15. The ANA, covering the internal audit cycle from 2014/15 to 2016/17, was prepared following discussion with the College's Senior Management Team and a review of previous internal and external audit reports.

An Audit Needs Assessment and Strategic Plan 2016 - 2020 was agreed with the College's Senior Management Team during 2016/17.

The Annual Report of the Internal Auditors for 2018/19 was considered by the Audit Committee at its meeting on 04 December 2019.

In the 2018/19 Annual Report, Henderson Loggie state that:

"In our opinion, with the exception of the issues highlighted in paragraphs 1.11, 1.12 and 1.13 [relating to, respectively: HR & Payroll review; National Insurance contributions; and outstanding items within Follow-Up reviews] the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2018/19 and in prior years since our first appointment in 1998/99."

In Section 2 of the Annual Report prepared by Henderson Loggie a summary of the results and conclusions relating to the audit work carried out by them in the following areas is given. Recommendations were made by Henderson Loggie in each of the internal audit reports, as follows:

Number	Title	Overall Grade	Recommendations	Priority 1	Priority 2	Priority 3
2019/01	Annual Plan 2018/19	N/A	N/A	N/A	N/A	N/A
2019/02	2017/18 Student Activity Data (Credits)	N/A	2	-	1	1
2019/03	Student Support Funds 2017/18	N/A	2	-	-	2
2019/04	International Activity - Products, Partnerships and Student Recruitment	Satisfactory	2	-	-	2
2019/05	Follow-Up Reviews	N/A	14 of 19 recommendations required further action	-	3	11
2019/06	HR and Payroll	Requires Improvement	9	-	8	1

Recommendation grades are defined as follows:

Priority 1 – Issues subjecting the College to material risk and which requires to be brought to the attention of management and the Audit Committee.

Priority 2 – Issues subjecting the College to significant risk and which should be addressed by management.

Priority 3 – Matters subjecting the College to minor risk or which, if addressed, will enhance efficiency and effectiveness.

The Internal Audit Reports referred to above were reviewed in detail by the Audit Committee and accepted.

3 External Audit

Ernst & Young was appointed by Audit Scotland as the College's external auditors from Academic Year 2017.

A draft external Audit Annual Report 2018/19 was reviewed at the Finance and General Purposes Committee on 11 February 2020 and will be reviewed by the Board of Management at its meeting on 20 February 2020 and by the Auditor General.

The draft Financial Statements including accounting policies, disclosures and the external auditor's opinion for the year ended 31 July 2019 were submitted to the Committee on 11 February 2020 and after full discussion were recommended for approval by the Board at its meeting on 20 February 2020.

The Corporate Governance statement included in the audited Financial Statements for the year ended 31 July 2019 was reviewed along with the Financial Statements.

4 Effectiveness of the Audit Committee

A 'Review of Meeting' item at the end of every agenda was continued by the Audit Committee throughout 2018/19. This was to enable members the opportunity to reflect on and discuss the effectiveness of the meeting. No concerns about the conduct of the meetings have been raised.

The Audit Committee meets formally without the College Management Team present at least once a year. The independent members of the Audit Committee meet formally with the Colleges internal and external audit service at least annually and met with them at the meeting on 28 November 2018.

The Audit Committee undertake a formal evaluation of the internal and external audit service annually.

5 Value for Money

The College continues to work closely with Government forums and APUC and follows the guidelines that have been developed to support the sector in line with best practice.

In response to a recognition of the need to improve procurements procedures, in November 2018 the College made the decision to buy-in direct support from APUC has contracted APUC to provide direct support in the development of more robust systems and processes. Initially, this was obtained via a remote support arrangement with the Head of Procurement – UHI Shared Service (APUC), however since July 2019 a member of APUC staff has been contracted to work directly for the College to take the project forward.

6 Review of the Effectiveness of Internal Control and Risk Management

The Committee undertook a formal annual review of the effectiveness of internal control and risk management in November 2016. This report is based on guidance produced by the Turnbull Committee and invites the Board to confirm that:

- It is satisfied with the scope, frequency and quality of the reports received during the year.
- It is satisfied with the College's ability to respond to changes in the operating environment.
- It is satisfied with the scope and quality of senior level involvement in monitoring risks.
- It is satisfied with the extent and frequency of reports to the Board.
- It agrees that there had been no significant control failings or weaknesses identified during the year.
- It is satisfied with its public reporting processes.

It is recommended that an informal review of effectiveness is undertaken on an annual basis. An informal review process was undertaken by the Board during July and August 2018-19, and no material issues were raised during this process.

7 Other Matters

The revised and updated College Governance Manual was reviewed and approved by the Audit Committee at its meeting on 15 March 2016. A review planned for early 2019 was deferred due to operational issues, and will now be undertaken in early 2020.

8 Opinion and Conclusion

It is the opinion of the internal auditors, Henderson Loggie CA, accepted and endorsed by the Audit Committee, that the College operates adequate and effective internal control systems as defined in the audit needs assessment and that proper arrangements are in place to promote and secure value for money.

It is the opinion of the external auditors, Ernst & Young, and endorsed by the Audit Committee that the financial statements give a true and fair view and are properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

It is the opinion of the Committee that the Board of Management's responsibilities as described in the Responsibilities of the Board of Management Statement included in the financial statements for the year to 31 July 2019 have been satisfactorily discharged.

It is also the opinion of the Committee that compliance with the SFC audit requirements as incorporated in Financial Memorandum have been ensured.

**Audit Committee
11 February 2020**

Audit Committee

Membership

No fewer than 4 members of the Board of Management.

- Board members not eligible for appointment are the Chair of the Board, the Principal, the Chair of the Finance and General Purposes Committee, the persons elected by the teaching staff and the non-teaching staff of the College and the persons appointed by the Perth College Students' Association.
- No member of the Finance and General Purposes Committee shall also be a member of the Audit Committee.
- The Chair of the Board, the Principal and the Chair of the Finance and General Purposes Committee shall be invited to attend meetings.
- The Committee may sit privately without any non-members present for all or part of a meeting if they so decide.
- The College Executive will attend meetings at the invitation of the Committee Chair and provide information for Agenda items

In attendance

Chief Operating Officer

Depute Principal (Academic)

Quorum

The Quorum shall be 3 members.

Frequency of Meetings

The Committee shall meet no less than three times per year.

Objectives

The Audit Committee's main responsibilities include advising the Board on whether:

- There are systems in place to ensure that the College's activities are managed in accordance with legislation and regulations governing the sector.
- A system of governance, internal control and risk management has been established and is being maintained, which provides reasonable assurance of effective and efficient operations and produces reliable financial information.
- There are systems in place to ensure the Committee engages with financial reporting issues

Terms of Reference

Internal Control

1. Reviewing and advising the Board of Management of the internal and the external auditor's assessment of the effectiveness of the college's financial and other internal control systems, including controls specifically to prevent or detect fraud or other irregularities as well as those for securing economy, efficiency and effectiveness; and
2. Reviewing and advising the Board of Management on its compliance with corporate governance requirements and good practice guidance including a strategic overview of risk management.
3. Strategic oversight of Health and Safety, Freedom of Information and Data Protection on behalf of the Board.

Internal Audit

1. Advising the Board of Management on the selection, appointment or reappointment and remuneration, or removal of the internal audit provider.
2. Advising the Board of Management on the terms of reference for the internal audit service.
3. Reviewing the scope, efficiency and effectiveness of the work of internal audit, considering the adequacy of the resourcing of internal audit and advising the Board of Management on these matters.
4. Advising the Board of Management of the Audit Committee's approval of the basis for and the results of the internal audit needs assessment and the strategic and operational planning processes.
5. Approving the criteria for grading recommendations in assignment reports as proposed by the internal auditors.
6. Reviewing the internal auditor's monitoring of management action on the implementation of agreed recommendations reported in internal audit assignment reports and internal audit annual reports.
7. Considering salient issues arising from internal audit assignment reports, progress reports, annual reports and management's response thereto and informing the Board of Management thereof.
8. Informing the Board of Management of the Audit Committee's approval of the internal auditor's annual report.
9. Ensuring establishment of appropriate performance measures and indicators to monitor the effectiveness of the internal audit service.

10. Securing and monitoring appropriate liaison and co-ordination between internal and external audit.
11. Ensuring good communication between the Committee and the internal auditors.
12. Responding appropriately to notification of fraud or other improprieties received from the internal auditors or other persons.
13. Reviewing the Risk Management Register.

External Audit

The appointment of external auditors to the College is directed by Audit Scotland.

1. Considering the college's annual financial statements and the external auditor's report prior to submission to the Board of Management by the Finance Committee. Care should be taken, however, to avoid undertaking work that properly belongs to the Finance and General Purposes Committee. If within its terms of reference, the Committee should consider the external audit opinion, the Statement of Members' Responsibilities and any relevant issue raised in the external auditor's management letter.
2. Reviewing the external auditor's annual Management Letter and monitoring management action on the implementation of the agreed recommendations contained therein.
3. Advising the Board of Management of salient issues arising from the external auditor's management letter and any other external audit reports, and of management's response thereto.
4. Reviewing the statement of corporate governance.
5. Establishing appropriate performance measures and indicators to monitor the effectiveness of the external audit provision.
6. Reviewing the external audit strategy and plan.
7. Holding discussions with external auditors and ensuring their attendance at Audit Committee and Board of Management meetings as required.
8. Considering the objectives and scope of any non-statutory audit work undertaken or to be undertaken, by the external auditor's firm and advising the Board of Management of any potential conflict of interest.
9. Securing appropriate liaison and co-ordination between external and internal audit.

Value for Money

1. Establishing and overseeing a review process for evaluating the effectiveness of the college's arrangements for securing the economical, efficient and effective management of the college's resources and the promotion of best practice and protocols, and reporting to the Board of Management thereon.
2. Advising the Board of Management on potential topics for inclusion in a programme of value for money reviews and providing a view on the party most appropriate to undertake individual assignments considering the required expertise and experience.
3. Advising the Board of Management of action that it may wish to consider in the light of national value for money studies in the further education sector.

Advice to the Board of Management

1. Reviewing the college's compliance with the Code of Audit Practice and advising the Board of Management on this.
2. Producing an annual report for the Board of Management.
3. Advising the Board of Management of significant, relevant reports from the Scottish Funding Council and National Audit Office and successor bodies and, where appropriate, management's response thereto.
4. Reviewing reported cases of impropriety to establish whether they have been appropriately handled.

Version 1 - Approved by BOM 13 December 2013

Version 2 – Approved by Audit Committee and BOM December 2015, updated September 2018 to reflect changes to Senior Management titles

[Note – Terms of Reference as outlined, above, have subsequently been amended to reflect changes to job roles]

Membership of the Audit Committee during the period 1 August 2018 – 31 July 2019

Jim Crooks (Chair of Audit Committee)
Ann Irvine
Lynn Oswald
Anna Zvarikova
Andrew Comrie – from September 2018

PERTH COLLEGE

Audit Committee

Annual Assessment of Effectiveness of Internal Control

1 Introduction

The Board of Management is required to make a statement on corporate governance in the annual accounts, in accordance with the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012. To support its statement on corporate governance, the Board should undertake an annual assessment of the effectiveness of internal control systems and risk management.

2 Review of Reports Received During the Year

During 2018-19, the Audit Committee received the following internal audit reports from Henderson Loggie:

Annual Plan 2018/19
2017/18 Student Activity Data
HR & Payroll Systems
International Activity – Products, Partnerships & Student Recruitment
Follow-Up Reviews

All recommendations therein and the College response to them are noted. The College's actions in response to previous Internal Audit report recommendations are monitored by the Audit Committee.

During 2017/18, the Finance and General Purposes Committee and the Board received quarterly reports on income and expenditure against budget. Reports were also provided on assets and liabilities. Variance reporting was used to highlight areas of risk and compensating action was taken.

A Balanced Score Card was used to monitor the implementation of the Strategic Plan to ensure financial and non-financial Performance Indicators were monitored at Board level. The Balanced Scorecard was monitored by four committees of the Board:

- Finance Committee and General Purposes Committee had oversight of the Financial and Environmental Sustainability Measures.
- Academic Affairs Committee had oversight of the Student Experience, Curriculum and Research Measures and some Developing our Organisation and Engagement Measures.
- Engagement Committee had oversight of the Engagement Measures and some Developing our Organisation Measures
- The Audit Committee had oversight of the Financial Outturn measures.

A review of the format of the Balanced Scorecard took place between March and July 2019 to better reflect the needs of individual Committees and members. The amended Balanced Scorecard will be utilised and reviewed throughout 2019/20.

The Board is invited to confirm that it is satisfied with the scope, frequency and quality of the reports received during the year, as set out above.

3 Changes During the Year

Changes and developments in the external operating environment which were substantive agenda items at the Committee meetings in 2018/19 are listed as follows:

1. In November 2018, the College decided to outsource procurement to APUC under their shared services scheme. As a result, there would be much greater procurement and planning support as well as the ability to source suppliers from the APUC framework;
2. During 2018/19 changes had been made to extend and strengthen safeguarding arrangements including the identification of priority groups, improvements in monitoring and recording, and increased legal duties such as those arising from Prevent and gender-based violence legislation. A UHI safeguarding policy was under development, which would identify a named safe-guarder at each Academic Partner. A schematic to show processes for managing safeguarding issues was identified as being beneficial to providing assurance to the Committee;
3. Investigative work conducted during the year identified a substantial over-provision of deferred income, however this matter was not fully concluded by July 2019.
4. Investigative work conducted during the year identified errors in payroll, however this matter was not fully concluded in July 2019.

Significant changes in the previous year which required additional attention of the College during 2018/19 included:

- ongoing discussions concerning the UHI organisational structure, relationships and processes between UHI EO and Academic Partners;
- College Sector Reclassification/ONS restrictions imposed on the College impacting on the College's ability to control and manage its own business, and therefore plan beyond the current year; An example of this included the College's requirement to source additional mechanisms to pre-fund and de-risk the Tay Cities Deal investment as a result of the public sector funding restrictions.

- National Pay Bargaining and its implications, not least financial, for the college sector due to the loss of direct control over staffing costs, a major element of the College cost base.

The Board is invited to confirm that it is satisfied with the College's ability to respond to changes in the operating environment.

4 Scope and Quality of Risk Monitoring

Members of SMT met periodically to review the Strategic Risk Register. The reviewed Risk Register was then forwarded to Audit Committee for monitoring and oversight.

In addition to the College Strategic Risk Register, the Audit Committee also periodically reviews the Health & Safety Risk Register and the ICT Risk Register, with the Health & Safety Risk Register being considered separately as part of the normal cycle of business.

Continuing and emerging risks were recognised as:

Financial uncertainty and sustainability, International and Overseas students, Brexit implications, College Sector reclassification/ONS; Student numbers and Support Funding; National pay bargaining; and ongoing discussions with UHI and Academic Partners

The College's actions in response to Strategic Risk Register discussions and actions are monitored by the Audit Committee and Board. An updated approach to Risk Monitoring is being implemented by assigning the monitoring of key risks to committees. This will be more formally implemented during 2019/20.

The Board is invited to confirm that it is satisfied with the scope and quality of management's monitoring of risks.

5 Communication to the Board and its Committees

Board Responsibility

'The Board should consider the extent and frequency of the communication of the results of monitoring to the Board and its Committees, which enables it to build up a cumulative assessment of the state of control in the College and the effectiveness with which risk is being managed'. (Turnbull Guidance)

Response

The system of reporting to the Board is covered in the draft Statement of Corporate Governance.

In July 2016 Henderson Loggie were re-appointed for the period from 1 August 2016-31 July 2020. Henderson Loggie carried out an Audit Needs Assessment,

based on the College’s Strategic Risk Register, following discussion with the College’s Senior Management Team and a review of previous internal and external audit reports and the SFC Financial Memorandum.

The Internal Audit Annual Plan for 2018/19 was first discussed by the Audit Committee at its meeting on 18 September 2018 and approved at its meeting on 28 November 2018.

The Board is invited to confirm that it is satisfied with the extent and frequency of reports to the Board.

6 Control Failings or Weaknesses

A number of significant control failings or weaknesses were identified during 2018/19. The areas are identified in the table below and the action plan will be monitored by the Audit Committee to ensure that each issue is addressed as a matter of urgency.

Area	Issue	Action
Payroll	During the year, it has been established that there has been an underpayment of National Insurance contributions over a number of years. As a result a provision of £250k has been made in the 2018/19 financial statements. In addition the college has made a voluntary disclosure to HMRC.	The College is rectifying the anomalies and will work with impacted staff.
Payroll	As part of follow up work commissioned by the College, internal audit has identified that there may have been overpayments of pension contributions over a number of years.	The College has engaged with external advisors to establish the value and extent of these likely overpayments and any associated errors in tax payments. The intention is then to provide communication to affected staff and to provide support where recovery of any overpayment becomes necessary.

<p>Settlement Agreements</p>	<p>Two severance arrangements were made during 2018/19 in respect of lieu of notice. While these settlement agreements incurred no cost to the College, we have identified that there was a requirement to report both to UHI as the RSB, and to the Scottish Funding Council.</p>	<p>The College reported these cases retrospectively to both UHI and SFC. Policies will be reviewed and updated to ensure that no omissions of this nature are made in the future.</p>
<p>Procurement</p>	<p>During the financial year, the College has identified a number of procurement weaknesses, including:</p> <ul style="list-style-type: none"> - Contracts that were awarded on the basis of a non-competitive quote without approval of the RSB; - Failure to retender significant contracts on a timely basis; and - A lack of purchase orders. 	<p>SMT have implemented control systems which includes:</p> <ul style="list-style-type: none"> • APUC contract in place • Revision of Procurement Strategy and Procedures • Contracts register enabling forward planning of contract values, tenders and renewals • Greater use of APUC Frameworks • Implementing a consistent purchase order system • Retendering of non-compliant contracts • Discussions with RSB on rationales for exemptions to tender
<p>Deferred Income</p>	<p>The College has identified that record keeping and communication across departments has been ineffective. In some cases this has led to errors in accounting for the release of income.</p>	<p>An improved contract management process for recording and monitoring progress against performance milestones is underway.</p> <p>Increased engagement and communication between Finance and College teams to plan and monitor income and expenditure.</p>

<p>Equalities Mainstreaming</p>	<p>The College has identified a delay in publishing the Equality and Outcomes Mainstreaming Report.</p>	<p>These will be completed by March 2020.</p>
<p>Code of Governance for Scotland's Colleges</p>	<p>As part of its self assessment, the College has noted that it has not fully complied with all aspects of the 2016 Code of Good Governance for Scottish Colleges.</p>	<p>In the opinion of the Board of Management, the College continues to comply with the provisions of the 2016 Code of Good Governance for Scotland's Colleges, with the exception of C22 – the requirement for the Board to comply with all aspects of the Financial Memorandum, specifically in relation to reporting non-compliance of matters of Procurement and settlement agreements and C27 - . the requirement for the Board to comply with the nationally agreed college sector Staff Governance Standard.</p> <p>The College is taking action to address these and expects to be fully compliant by March 2020.</p>
<p>Compliance with the Accounts Direction</p>	<p>Under the Accounts Direction, the College is required to submit the annual report and accounts to the Auditor General for Scotland by 31 December 2019. Due to staff turnover within the Finance Team we were unable to produce the Financial Statements within this timeframe.</p>	<p>As part of an overall review of the Finance Team structure, we will develop a revised approach and timetable for the production of financial statements.</p>

7 Effectiveness of Public Reporting Procedures

- Perth College UHI is committed to the principles of openness and accountability in all its activities. In response to our obligations under the Freedom of Information Act (Scotland) 2002, the College has adopted and will maintain the Model Publication Scheme for Scotland's Colleges.
- The Board is updated annually on the requests for information received under the Freedom of Information Act (Scotland) 2002 and Data Protection requests.
- The College completes and lodges a number of statutory returns to demonstrate appropriate use of public funds.
- Information about the Board and its members is available on the website, including the Register of Interests.
- Board of Management minutes and papers are published on the website.
- The Perth College Annual Accounts are published on the website. The Annual Accounts for Air Services Training Limited are lodged with Companies House.
- The Annual Report is published on the website. A hard copy is available to anyone who makes a request.

The Board is invited to confirm that it is satisfied with its public reporting processes.