Agenda

5 October 2020
AUDIT COMMITTEE

Zoom 4.30pm

AGENDA

1.	Declarations of interest	
2.	Apologies	

FOR APPROVAL

3.	Minutes of meeting of 21 May 2020	
4.	Matters Arising	
5.	Review of Committee Remit	Alison Stewart
6.	Annual Audit Plan Addendum Year ended 31 July 2020	Ernst & Young

FOR DISCUSSION

7.	Presentation of Internal Audit Reports a) Follow Up Review b) Estates Maintenance c) Financial Planning	MHA Henderson Loggie

(Elements of paper 7a are withheld from publication on the Forth Valley College website under Section 36 Confidentiality of the Freedom of Information (Scotland) Act 2002.)

8.	Internal Audit Plan Progress Report	MHA Henderson Loggie
9.	Internal Audit Annual Report	MHA Henderson Loggie

(Elements of paper 9 are withheld from publication on the Forth Valley College website under Section 36 Confidentiality of the Freedom of Information (Scotland) Act 2002.)

10.	Progress Report on Audit Recommendations	Stephen Jarvie
11.	Risk Management inc Covid-19 Risk Register	Alison Stewart
12.	Audit Scotland – Guide for Audit and Risk Committees	Alison Stewart
13.	Review of Risk	
14.	Any other competent business	

15. Private Discussion between members and auditors (Verbal) Lorna Dougall

FOR INFORMATION
Audit Scotland Report – Scotland's Colleges
Email from Scottish Government regarding extension of external auditors

3. Minutes of Meeting of 21 May 2020
For Approval

Skype (commencing at 4.30pm)

Present: Lorna Dougall (Chair)
Hazel Burt
Steven Torrie (Co-opted Member)

In Attendance: Ken Thomson, Principal
Kenny McInnes, Vice Principal Learning & Student Experience (VPLSE)
Alison Stewart, Vice Principal Finance and Corporate Affairs (VPFACA)
Stephen Jarvie, Corporate Governance and Planning Officer (CGPO)
David Archibald, MHA Henderson Loggie
Stuart Inglis, MHA Henderson Loggie
Steven Reid, Ernst and Young (Exited at start of A/19/043)

The Chair welcomed Hazel Burt to her first meeting of the Audit Committee.

A/19/033 Declarations of Interest

None

A/19/034 Apologies for Absence

Lindsay Graham (FVSAVP)
Beth Hamilton
Mandy Reid (Co-opted Member)

A/19/035 Minutes of meeting of 19 November 2019

The Chair reported that, owing to apologies, the meeting was not quorate. For those items requiring approval, they would be considered during the meeting and then the members unable to attend would be emailed to seek their approval.

Members approved the content of the minute of 19 November 2019, subject to the approval of the remaining members as outlined above.

A/19/036 Matters Arising

None

A/19/037 External Audit Plan

Stephen Reid, Ernst and Young, presented the draft external audit plan for consideration. He highlighted some key sections in the plan for members attention.

He reported that the plan had been developed from their experience of the College, with this being their fourth year as external auditors, and following discussions with the VPFACA and her team.

He outlined potential areas of disruption to the College as a result of COVID-19 which had been incorporated into the plan. He highlighted that Scottish Government and Scottish Funding Council (SFC) were still refining their expectations and that, should this result in a change to the proposed audit approach, an addendum would be prepared for Audit Committee consideration.

He informed members that the materiality level had been reduced for the audit plan.

He also noted that, as the current uncertainty regarding the lockdown could potentially impact on the audit scope and timescales, the final audit fee was not able to be set at this time.

Members noted the reference in the plan to property valuations and queried whether this would change given market fluctuations related to COVID-19. Stephen Reid confirmed that recent property valuations were including additional costs from valuers in relation to material uncertainty clauses.

The VPFACA noted that the valuation process for College buildings was slightly different from the norm in that they were not valued on an open market value basis but on depreciated replacement cost basis.

Members noted the comments in the report on pension valuation and queried whether the College had the ability to influence these levels.

Stephen Reid confirmed that, broadly, there was very little the College could do to impact on pension valuations.

a) Members approved subject to the further approval of absent members.

A/19/038 **Internal Audit Plan 2020/21**

Stuart Inglis, MHA Henderson Loggie, presented the internal audit plan for 2020/21.

He highlighted that there had been some changes from the overarching three-year audit plan, with Student Application Process and Corporate Planning being deferred and 2 audits added for this year on Corporate Governance and Business Continuity.

He outlined the scope for these audits, with business continuity looking at the work done to date to respond to COVID-19 and preparation for reopening the campuses.

Corporate Governance would focus on the effectiveness review of Board activity the College was required to do on a periodic basis.

Members queried whether audit activity would be able to progress during the ongoing pandemic.
Stuart Inglis confirmed that they would look to utilise a number of formats to complete the work, with staff working remotely and communicating via email. He

acknowledged that there may be material that College staff cannot physically access and that this would be taken into consideration.

a) Members approved subject to the further approval of absent members.

A/19/039 FVC Guidance for Assessment Documentation

The Chair welcomed the paper to be presented, noting that she had had a discussion with the VPLSE on its content, and highlighting the need for Audit Committee and the Board to be comfortable with the approach taken as it represented a complete change from normal practice mid-year.

The VPLSE noted that the development of the paper had been discussed at the Board and the detail was being brought to the Committee so that members had an opportunity to comment on the overarching process, it's robustness and whether it is fit for purpose.

He noted that, following lockdown, SQA and Scottish Government had decided to stop the exam diet for Scotland and SQA had issued guidance for Colleges on assessment.

He informed members that a cross College group had been formed to look at the SQA guidance and developing practice in other College's with a view to create a robust process for College programme teams to use to work with learners to gain additional evidence or make a holistic decision based on evidence collected to date.

He provided members with an overview of the process, noting the many quality stages built into the process to challenge and agree the assessment decisions being made for all students.

He also outlined a central repository which had been created and would store all evidence to ensure the College is able to robustly process appeals.

Members queried whether SQA would have a role in this process. The VPLSE noted that SQA had requested evidence of the decision making process to be held for 6 months which may feed into external verification activity.

The Principal noted that the focus on a clear decision process and the retention of evidence was key to support the decision making in the College and commended the VPLSE and his team for a significant piece of work in a short timeframe.

The Chair welcomed the content in the report and comments from the VPLSE. She informed members that, owing to the impact of this piece of work on the student experience, it would be beneficial to contact the Chair of the Learning and Student Experience Committee and the Forth Valley Student Association to ensure they are aware of, and can endorse, the significant level of detail going into College decision making on this important topic.

The Principal welcomed this suggestion.

a) Members noted the content of the report and recorded their thanks to the VPLSE and his staff for developing this large piece of work which would reduce the College's exposure to risk.

A/19/040 Presentation of Internal Audit Reports

David Archibald, MHA Henderson Loggie, presented a report on the recent review of the Business Development process within the College. He noted that this piece of work was different than the standard audit review and outlined the methodologies used and feedback received as outlined in the report.

He outlined the recommendations made and welcomed the College Project Initiation Document which had been appended to his report as this demonstrated that the College were taking these recommendations forward.

Members queried how the staff had responded to a different audit approach.

The Principal confirmed that they had initially been hesitant but, once it was explained that this was akin to a consultation process designed to assist them, they had bought into the process.

a) Members noted the content of the report

A/19/041 2019/20 Internal Audit Plan Progress Report

David Archibald, MHA Henderson Loggie, provided an overview of progress against the agreed audit plan for 2019/20. He noted that there had been some slippage on start dates for the estates audit but that this had now commenced, and the report would be presented to the next Committee meeting.

He noted that the follow up audit was still to commence but this was normally done later in the academic year.

a) Members noted the content of the report

A/19/042 Progress Report on Audit Recommendations

The CGPO reported to members that there were no live or outstanding audit recommendations at this time.

The Chair welcomed this position and the Principal noted that this was as a result of ongoing effort from Corporate Governance to keep on top of recommendations.

a) Members noted the content of the report

A/19/043 **Risk Management**

The VPFACA presented members with the College strategic risk register and a separate Covid-19 risk register.

She informed members that an overarching COVID-risk 19 had been included in the strategic risk register and also outlined two risks within the strategic register which the College was proposing to remove as they had been overtaken by events.

She discussed the content of the COVID-19 register, highlighting that this was still under development.

The Chair noted that the HR Committee had identified some risks for this register which they had provided to her and she outlined what these were.

Members noted, given papers considered earlier, the quality of learning should be included in the COVID-19 register.

The Principal agreed with this recommendation, noting that remote learning and support needed to have quality embedded in it. He informed members that the Forth Valley Arm's Length Foundation had, that week, approved the College's application for funding for a Digital Hub which would be key to developing a quality digital pedagogy moving forward.

a) Members approved the removal of the two risks from the strategic risk register as outlined in the paper
b) Members noted the content of the strategic and COVID-19 registers and agreed that the risks raised by this Committee and the HR Committee should be incorporated into the COVID-19 register

A/19/044 **Review of Risk**

Members did not identify additional risks but highlighted that, as noted, the guidance for assessment presented to the meeting was a significant piece of risk mitigation for the College.

A/19/045 **Any Other Competent Business**

None

5. Review of Committee Remit
For Approval

5 October 2020
AUDIT COMMITTEE

1. Purpose

To review the remit of the Audit Committee to ensure it continues to provide the Board of Management with the appropriate assurances for next Academic Year.

2. Recommendation

That members review the attached remit of the Audit Committee and recommend any changes to the Board of Management.

3. Background

The Scottish Government Audit & Assurance Committee Handbook considers it good practice for the remit of the committee be reviewed on an annual basis to ensure they continue to fulfil their role of providing the Board of Management with the necessary assurances in relation to good Governance.

4. Financial Implications - None

5. Equalities

Assessment in Place? – Yes ☐ No ☒

Review of committee remit does not require equalities assessment.

6. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		
Medium		
Low		
Very Low	X	X

Risk - the Committee does not provide the assurances required by the Board of Management if remit is not relevant.

Risk Owner – Alison Stewart **Action Owner –** Stephen Jarvie

7. Other Implications – None

Paper Author – Alison Stewart **SMT Owner –** Alison Stewart

Audit Committee

1 Committee Rationale

To contribute to good governance by providing assistance to the Board of Management on issues of compliance, risk, financial probity and the overall effectiveness of internal College control systems

2 Purpose

- To advise the Board of Management on the effectiveness of the financial and other internal governance systems
- To advise the Board of Management on compliance with the Code of Audit Practice for Further Education Colleges
- To undertake reviews of topics referred from the main Board of Management and make such recommendations as may be appropriate

3 Membership

- The Audit Committee is appointed by the Board of Management and must comprise 5 members
- The Chair of the Board of Management, Principal, and other senior members of staff are not eligible for membership
- The Chair of the Committee shall be appointed by the Board of Management and should not be the Principal. In the event that the Chair is unavailable to attend a meeting of the committee, a substitute will be nominated by the Committee members in attendance
- Committee members should possess an appropriate level of experience in finance, accounting or auditing
- Finance committee members are eligible to become members of the Audit Committee however, to maintain the independence of these committees, no more than 2 current members of the Finance Committee may serve on the Audit Committee. The Chair of the Finance Committee is not eligible to serve as Chair of the Audit Committee

4 Meetings

- The Audit Committee should normally meet at least three times per year. Additional meetings may be convened at the request of the Chair of the Committee or at the request of the Internal or External Auditor

- The meeting shall be quorate if 3 or more members eligible to vote are in attendance
- The External Auditor will be invited to attend meetings where an external audit report is being considered but may attend any meeting of the Committee
- The Chair of the Finance Committee will be invited to attend the joint meeting of the Finance and Audit Committees where the annual external auditors report is considered
- Minutes will be kept of the proceedings and circulated after approval by the Chair. The minutes will be presented to the following meeting of the Committee for approval and to the next Board of Management meeting
- Meetings will be held in accordance with the Board of Management Standing Orders and Operating Guidelines
- Other members of College staff may be invited to attend meetings of the Committee

5 Specific Duties of the Committee

Internal Governance Systems

- Review and advise the Board of Management of the Internal and External Auditors' 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
- Review and advise the Board of Management on its compliance with The Code of Good Governance for Scotland's Colleges
- Monitor on behalf of the Board of Management the content of the College Strategic Risk Register and the relevance of actions implemented by Senior Management to mitigate identified risks
- Review and approve the College Business Continuity plan
- Monitor on behalf of the Board of Management compliance with the General Data Protection Regulations

Internal Audit

- Advise the Board of Management on the terms of reference, selection, appointment (or removal), resourcing and remuneration of the Internal Audit providers

- Review the scope, efficiency and effectiveness of internal audit reports and the responses of Senior Management, advising the Board of Management of any significant issues raised

- Review the Internal Auditor's monitoring of management action on the implementation of agreed recommendations reported in internal audit review reports and internal audit annual reports

- Consider and endorse the annual audit plan for the College as developed by Senior Management in consultation with the current internal auditor providers

- Ensure establishment of appropriate performance measures and indicators to monitor the effectiveness of the internal audit service

External Audit

- Consider the College's annual financial statements and the External Auditor's report prior to submission to the Board of Management as part of the annual joint meeting with the Finance Committee

- Review the External Auditor's annual Management Letter and monitor management progress on the implementation of the agreed recommendations. Advise the Board of Management of any issues arising from this activity.

- Establish appropriate performance measures and indicators to monitor the effectiveness of the external audit service

Other Duties

- Produce an annual report to the Board of Management

- Review compliance with the Code of Audit Practice and advise thereon

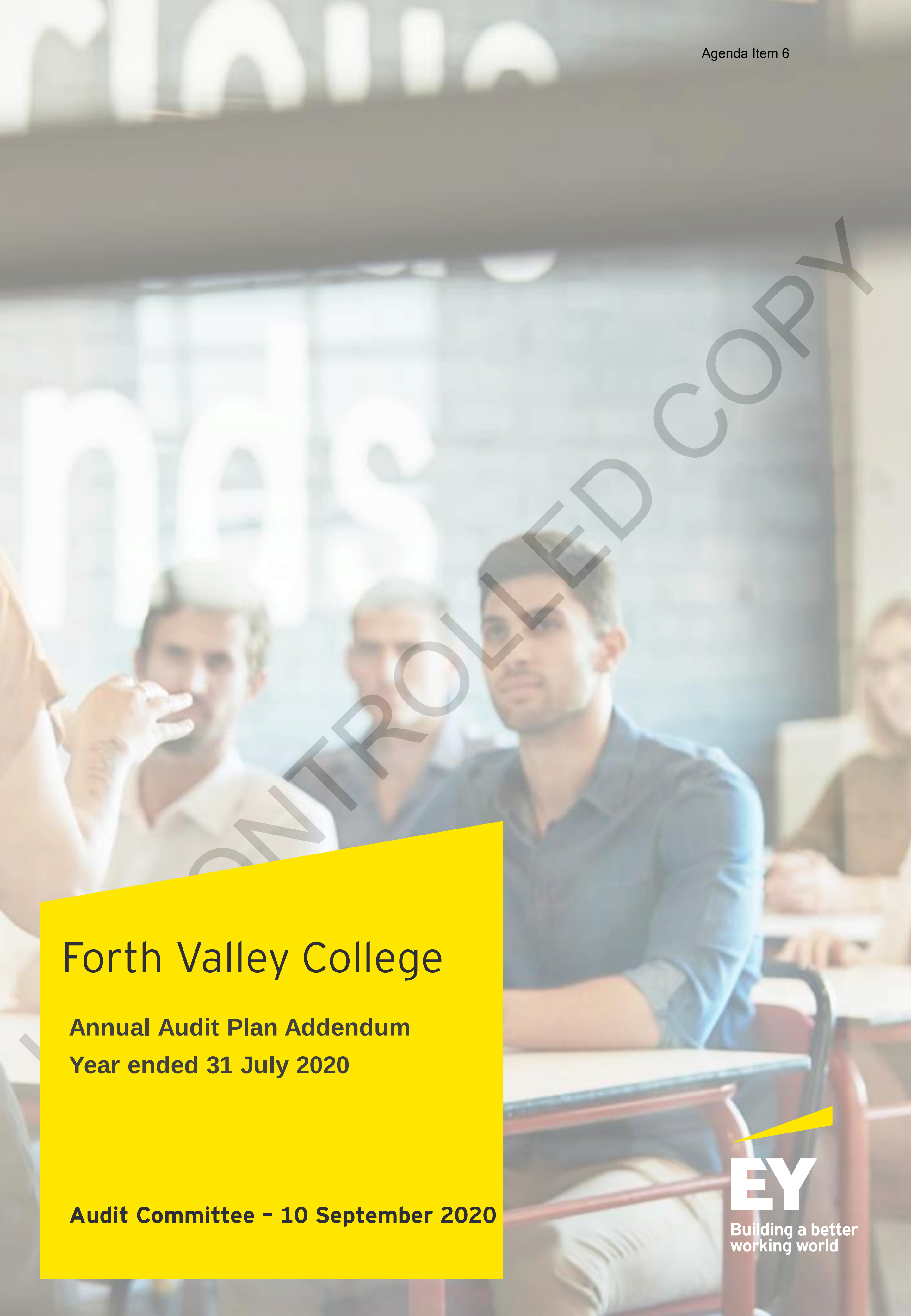
- Consider relevant reports from SFC and Audit Scotland, and successor bodies, and where appropriate, advise the Board of Management of action required

- Review reported cases of impropriety and consider whether they have been appropriately handled

- To receive advice, and act on recommendations, from the Finance Committee

6 Authority

- The Committee is authorised by the Board of Management to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee
- The Committee is authorised by the Board of Management to obtain legal or other independent professional advice and to commit reasonable financial resources to fulfil its responsibilities
- The Committee is authorised by the Board of Management to approve all policies relevant to the Committee, or where appropriate refer to the Board of Management for final approval



Forth Valley College

Annual Audit Plan Addendum
Year ended 31 July 2020

Audit Committee – 10 September 2020

Building a better working world

Introduction

The Impact of Covid-19 on our audit

Our annual audit plan was agreed with management and presented at the Audit Committee meeting in May 2020. We provided an overview of our audit scope and approach for the audit of the financial statements and the wider scope audit work. This addendum provides an update to the Audit Committee on the planned scope and approach to the external audit for 2019/20 in light of the significant impact of the Covid-19 global pandemic on the further education sector, and associated impact on the accounting arrangements and disclosure requirements.

Our audit procedures have been re-assessed to ensure they address the changing risks and issues which have emerged as a result. Our aim is to deliver a high quality audit while supporting the College to prioritise its core services and strategic aims. We outline below the key areas of impact for our audit in 2019/20, while recognising that the College faces significant challenge and uncertainty in the months and years ahead.

1. Impact on our audit risk assessment

On page 3, we outline the key areas of impact on the risks presented within our annual audit plan, in particular the impact on the valuation of Property, Plant and Equipment and LGPS assets and liabilities.

We have reviewed our consideration of the overall materiality levels used for the audit and concluded that the levels remain appropriate.

2. Impact on the financial statements

On pages 5-6, we highlight our expectations of areas of impact within the financial statements, in particular possible changes to narrative reporting and disclosures to reflect the impact and uncertainty around the current situation.

3. Wider scope risk assessment

On page 8, we outline proposals to reprioritise wider scope work to focus on key areas of risk during the crisis. As a result we have

- increased our focus on the financial sustainability of the College; and
- focused our consideration around other wider scope dimensions on the impact of Covid-19 during the year.

4. Audit Logistics

The deadlines set by the SFC for the submission of audited financial statements remain the same, with the option for flexibility. On page 9 we set out:

- our current expectations that the timetable will be broadly in line with the original plan;
- the primacy of maintaining audit quality; and
- logistical arrangements to allow us to conduct the audit remotely.

1. Impact on audit risk assessment

Changes to our risk assessment as a result of Covid-19

We set out below the significant and inherent risks identified for 2019/20 alongside our other areas of audit focus. We have highlighted any changes in audit focus or new risks alongside any revisions to the expected audit approach. The risks identified may change further as a result of any significant findings or subsequent issues we identify during the audit.

Significant Risk: Risk of fraud in revenue and expenditure recognition	**No change in risk, additional audit focus around revenue recognised in relation to activities or services delayed by Covid-19.** There remains a significant risk around the recognition of income and expenditure transactions around year end. In particular we will consider the recognition of any grant or tuition income for courses which were not completed at the financial yearend due to Covid-19. We will also consider the accounting and disclosure of any Covid-19 related income and expenditure.
Fraud Risk: Misstatement due to fraud or error	**No change in risk but additional audit focus around year end provisions and estimates that are related to or impacted by Covid-19.** We recognise that the control environment for financial statement close processes will likely have evolved due to remote working arrangements. We will assess whether this had an impact on the effectiveness of management's controls designed to address the risk of fraud. Our specific focus remains on key areas of judgements and estimates, significant unusual transactions and journal entries made by management.
Significant risk: Valuation of property, plant and equipment	**Increased risk.** The Royal Institute of Chartered Surveyors (RICS) has issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty at 31 March 2020. While this guidance may not be in place for 31 July 2020, there remains increased uncertainty around the valuation of assets in the current environment. Caveats may be included within valuation reports highlighting uncertainties which give rise to additional risks relating to financial statement disclosures as well as the valuations themselves. To address the increased risk, we will use internal specialists to examine the work performed by the College's independent valuers for the valuation of the new Falkirk Campus in 2020. There will also be additional focus on management's assessment of assets not subject to valuation in 2019/20, to comply with the relevant accounting requirements that assets are valued with sufficient regularity to avoid misstatement, and not just within an arbitrary period.

1. Impact on audit risk assessment (continued)

Inherent risks: Valuation of pension assets and liabilities	**No change in risk, increase in audit focus.** Since our audit planning report there are three areas of increased focus required around the valuation of the College's share of the Falkirk Council Pension Fund assets and liabilities. - A number of local government pension funds have reported material uncertainties around the valuation of its assets at 31 March 2020 and there has been increased volatility in relation to investment returns. This will result in additional consideration being required to accurately assess the roll forward of the College's share of those assets to 31 July 2020. In addition, some local government audits have been delayed due to Covid-19 which may lead to delays in obtaining the assurances we require from the pension fund auditors. - Last year the College accounted for the impact of the McCloud judgement impacting future liabilities in the Pension Fund as a past service cost. A consultation has now been issued on how these costs may be addressed going forward, and should be included in the College's actuaries' assessment of its pension liability at 31 July 2020. - Similar to the impact of the McCloud judgement in 2018/19, in July 2020, Scottish Ministers acknowledged that a recent employment tribunal ('the Goodwin tribunal') will require changes to the Local Government Pension Scheme which may impact the College's pension liability. The impact will be considered by the College's and our own actuaries.
Audit focus area: Changes to accounting framework - 2018 SORP	**No change in risk or audit focus.** While the accounting framework or disclosure requirements have not changed as a result of Covid-19, we have outlined in this addendum the significant impact on the existing disclosure requirements.

2. Impact on the College's Financial Statements

We remain satisfied that the values reported to you in our Audit Planning Report for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

Our review and reassessment of materiality

In our annual audit plan, we communicated that our audit procedures would be performed using a materiality of £735,000. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the overall materiality values reported remain appropriate, however as outlined on the previous page we will reduce materiality to reflect additional risks around parts of the financial statements more directly impacted by Covid-19.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements. We will report any changes to our materiality as part of our Annual Audit Report.

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements.

The financial statements will need to reflect the impact of Covid-19 on the College's financial position and performance.

Accounting policies

Covid-19 will have a pervasive impact on the financial statements. We have outlined below the areas where we believe there is the potential for the most material impact on the Council's financial position at yearend:

- **Revenue and Expenditure recognition:** Covid-19 specific government support is a new transaction stream and may require development of new accounting policies and treatments. Other policies made need clarified to ensure clarity around how the impact of Covid-19 has been addressed.
- **Property, Plant and Equipment:** PPE may be impaired if future service potential is reduced by the economic impact of Covid-19. The College may also have already incurred capital costs on projects where the economic case for completion has fundamentally changed. There may be material uncertainties recognised in relation to the valuation of PPE.
- **Pensions:** volatility in the financial markets is likely to have a significant impact on the valuation of both pension assets and liabilities, and there is the possibility of significant changes to the underlying actuarial assumptions impacting the valuation of liabilities.
- **Receivables:** there may be an increase in amounts provided for or written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and individuals expected to be under financial stress.

A number of revised disclosures will be required to reflect the impact of the pandemic, including on the financial position and future financial sustainability.

We will continue to work closely with management to share experience and good practice from other education bodies across the UK.

Key disclosures within the Financial Statements

Front end narrative – performance reporting

An addendum to the Government Financial Reporting Manual 2019-20 ('the FReM') was published and permits entities to omit the performance analysis in order to minimise the reporting burden on public sector entities during the Covid-19 crisis. Colleges may decide to include more comprehensive performance analysis.

It will be important that the impact of Covid-19 is disclosed accurately, completely and that disclosures are relevant and tailored to the College. This includes disclosures around the impact on the College's financial and operational performance, its future plans and risks.

Governance Statement

The College's governance statement will need to capture how the control environment has changed during the period impacted by Covid-19, both up to the balance sheet date and through to the approval of the financial statements, and what steps were taken to maintain a robust control environment during the disruption. This includes how key governance functions are continuing to operate, such as key committee meetings and the delivery of internal audit's programme of work.

Accounting estimates and judgements

Additional disclosures will be required throughout the financial statements to reflect the additional risks facing the College, and how these have impacted the key judgements and estimates made in preparation of the financial statements. In particular, we have referenced the potential material uncertainties around the valuation of property, plant and equipment, pension assets and liabilities, and debtors at the balance sheet date.

Events after the balance sheet date

Significant events after the balance sheet date require to be disclosed within the financial statements, either through the post balance sheet events note or in specific accounting notes or the management commentary and governance statement, as appropriate. The detail required in the disclosures will reflect the specific circumstances of the College, however given ongoing uncertainty and daily changes to key issues impacting the College, there is a greater focus on ensuring these disclosures remain up to date in advance of anticipated approval of the financial statements in December 2020.

We will review the updated going concern disclosures within the financial statements, and associated financial viability disclosures within the governance statement. We expect any material uncertainties around the College's future financial position to be fully disclosed.

Disclosures on Going Concern

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

In accordance with the FReM, the College shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity.

Covid-19 has created a number of financial pressures throughout the public sector, including further education. Uncertainty remains about the level of financial support that may become available from the SFC to reflect the financial consequences of Covid-19. As a result, the SFC's 2019/20 Accounts Direction requires an explanation of the adoption of the going concern basis and mitigating actions taken as a result of Covid-19 to be included as part of the going concern commentary within the College's financial statements, both in the Performance Overview and Annual Governance Statement.

Management's assessment of its future financial position and the related financial statement disclosures will be an area of significant focus for our yearend audit work.

Management's assessment and associated disclosures will need to cover at least a 12 month period from the date of approval of the financial statements, but should include consideration throughout the remainder of the College's strategic plan period and through its medium term financial plan period and beyond.

Disclosures made in the financial statements should include the process that has been undertaken to revise financial plans and cashflow in the light of Covid-19 as well as the outcome of this process. Consideration should also be given as appropriate and material to cash liquidity forecasts, sensitivities and assumptions in forecasting, and mitigating actions planned by management to address any worsening financial performance.

We recognise that this is a new area of focus at a challenging time for the finance team and we will therefore share with management:

- guidance on the detailed requirements for a going concern assessment;
- a template assessment as an example/guide to follow; and
- example disclosures from our experience to date in auditing financial statements after the impact of Covid-19.

3. Wider scope risk assessment

We have tailored our wider scope audit work to focus on financial sustainability and the specific impact of Covid-19 on the other wider scope audit dimensions.

Wider Scope Risk Assessment

We have outlined below our assessment of the impact of the pandemic on the work planned under wider scope dimensions.

Financial sustainability

In our annual audit plan, we outlined a significant wider scope risk around the continuing financial pressures faced by the College. The financial environment in which the College operates was already challenging, and the Covid-19 pandemic results in further, significant financial pressures. It is anticipated the impact of Covid 19 will result in the College being unable to fully deliver planned savings or achieve income growth targets due to the global pandemic. This will increase the financial pressures for future years and creates a significant risk that the College will not be able to develop viable and sustainable financial plans due to external factors.

Financial management

The importance of strong financial management and governance, has never been greater than during the current environment. We recognise that the College's financial management and internal control arrangements will have evolved as part of the response to the pandemic. As part of our yearend audit procedures we will review changes to the financial management arrangements to assess the impact.

Governance and transparency

Our work for the year will focus on the College's arrangements to ensure effective governance was in place through the Covid-19 lockdown period. We will consider:

- How the College ensured the quality of arrangements in place to support good governance during the Covid-19 pandemic including ensuring that there is sufficient transparency around governance and decision making arrangements.
- Is the Governance Statement within the financial statements complete and does it reflect key matters impacted by Covid-19, such as delays in the completion of internal audit work and non-compliance with the code of good governance where actions were not able to be implemented?

Value for money

Our work for the year will consider whether the College used resources effectively to help support students and other stakeholders during the Covid-19 pandemic, and how it has continued to monitor performance and ensure scrutiny around value for money during this time.

4. Audit Logistics

Changes to reporting timescales

The SFC has maintained the same deadline for submission of audited financial statements as previous years, 31 December 2020.

Audit quality retains primacy over regulatory deadlines.

In line with previous years the SFC accounts direction has confirmed that Incorporated and non-incorporated colleges are required to provide their annual report and accounts, together with the associated audit reports by 31 December. However, it has been acknowledged that, due to the exceptional circumstances arising from COVID-19, this deadline may not be achievable for some colleges.

The Financial Reporting Council ("FRC") has issued guidance for both auditors and preparers of the financial statements on issues arising from the Covid-19 pandemic. The guidance to date highlights the practical difficulties in preparing financial statements and performing audits in the new way of working. It is clear that auditors will be required to develop alternative audit procedures to gather sufficient and appropriate audit evidence. The guidance is clear that the new way of working should not undermine the delivery of high quality financial statements preparation or quality audits, which should continue to comply fully with international auditing standards. Where additional time is required to complete audits due to ongoing and developing risks, it is important that this is taken to maintain audit quality rather than seeking to conclude early to meet arbitrary or regulatory deadlines.

The College is currently planning to work to the original timetable for the audit and finalisation of the financial statements in December. To date management has confirmed there has been no slippage in planned work around the preparation of the financial statements. We will continue to work with management to meet these timetables and keep them under review through the audit process.

Information Produced by the Entity (IPE)

There will be an increased focus around the completeness, accuracy, and appropriateness of information produced by management to support our audit work due to the inability of the audit team to verify original documents or re-run reports on-site from the College's systems. To address the risks around this we will consider the following procedures as appropriate:

- use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited;
- agree IPE to scanned documents or other system screenshots; and
- should it be necessary, agree limited onsite visits under appropriate arrangements to verify specific requested documentation and reports in person.

Audit Fees

Fee variations will be agreed with management and reported to the Audit Committee in our 2019/20 Annual Audit Report.

The expected base fee for the College, set out in our annual audit plan, assumes there is no major change in respect of the scope of work in the year, that the College has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit, and an unqualified audit opinion resulting from the audit. Should any of these circumstances change throughout the audit, it is anticipated that additional costs may be incurred through the course of the audit which will be subject to recovery in line with the agreed process and rates set out by Audit Scotland.

In our audit planning report we noted that we had not been able to fully consider and quantify the potential impact of Covid-19 on the financial statements and wider scope audit work. While there remains uncertainty around the quantum of additional time required, the changes impacting the College and the associated risks to the audit outlined in this addendum will have a significant impact on the audit work we need to perform to conclude on the financial statements, in particular:

- The greater use of internal specialists required to support our work on significant and inherent risk areas, in particular the valuation of property, plant and equipment and pension assets and liabilities;
- Additional work required around the appropriateness of going concern and financial sustainability disclosures in the financial statements and the associated wider scope audit consideration required around financial sustainability; and
- The pervasive impact of Covid-19 on the financial statements disclosures required, including the performance reporting, governance statement, key judgements and estimates and post balance sheet events note.

Where further additional work is required, fee variations will be agreed with management and reported to the Audit Committee in our 2019/20 Annual Audit Report.

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Forth Valley College

Follow-Up Reviews

2019/20

Internal Audit Report No: 2020/08

Draft issued: 27 August 2020

Final issued: 31 August 2020

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mha
HENDERSON LOGGIE

Contents

1. Management Summary

Introduction and Background

As part of the Internal Audit programme at Forth Valley College ('the College') for 2019/20 we carried out a follow-up review of the recommendations made in Internal Audit reports issued during 2019/20 and reports from earlier years prepared by the College's previous internal auditors Scott-Moncrieff that had either not already been subject to follow-up or where previous follow-up identified recommendations outstanding. These were:

Non-Pay Expenditure and Creditors 2016/17;
Mental Health Services 2018/19;
Report 2020/02 – Student Activity Data 2018/19; and
Report 2020/04 – Student Engagement – Student Association.

Reports 2020/01 – Strategic Internal Audit Plan 2019 to 2022 and Outline Internal Audit Annual Plan 2019/20 and 2020/03 – Student Support Funds did not contain an action plan and therefore no follow-up was required as part of this review. Report 2020/05 –Business Development – Business Process Review identified a wide range of opportunities for potential change in order to enhance efficiency, effectiveness and customer service through facilitated focus group sessions, and actions were prioritised for the College to take forward. Management will be providing the Audit Committee with an update on progress with these actions.

Audit Scope and Objectives

The objective of our follow-up review was to assess whether recommendations made in previous audit reports have been appropriately implemented and to ensure that, where little or no progress has been made towards implementation, that plans are in place to progress them.

Audit Approach

For the recommendations made in the reports referred to above we ascertained by enquiry and review of supporting documentation, as appropriate, whether they had been completed or what stage they had reached in terms of completion and whether the due date needed to be revised.

Action plans from the original reports, updated to include a column for progress made to date, are appended to this report.

Overall Conclusion

The College has made excellent progress in implementing the recommendations followed-up as part of this review with all eight recommendations being assessed as ‘fully implemented’.

From Original Reports			***From Follow-Up Work Performed***			
Area	**Rec’n Grades**	**Number Agreed**	**Fully Implemented**	**Partially Implemented**	**Little or No Progress Made**	**Considered But Not Implemented**
Non-Pay Expenditure and Creditors 2016/17	4	-	-	-	-	-
	3	-	-	-	-	-
	2	1	1	-	-	-
	1	-	-	-	-	-
Total		**1**	**1**	**-**	**-**	**-**
Mental Health Services 2018/19	4	-	-	-	-	-
	3	-	-	-	-	-
	2	3	3	-	-	-
	1	-	-	-	-	-
Total		**3**	**3**	**-**	**-**	**-**
Student Activity Data 2018/19	1	-	-	-	-	-
	2	-	-	-	-	-
	3	1	1	-	-	-
Total		**1**	**1**	**-**	**-**	**-**
Student Engagement – Student Association	**1**	-	-	-	-	-
	2	1	1	-	-	-
	3	2	2	-	-	-
Total		**3**	**3**	**-**	**-**	**-**
Overall Total		**8**	**8**	**-**	**-**	**-**

Overall Conclusion (Continued)

The grades, as detailed below, denote the level of importance that should have been given to each recommendation:

Scott-Moncrieff reports (2018/19 and before)

Priority 4	Very high risk exposure -major concerns requiring immediate senior attention that create fundamental risks within the organisation.
Priority 3	High risk exposure -absence / failure of key controls that create significant risks within the organisation.
Priority 2	Moderate risk exposure -controls are not working effectively and efficiently and may create moderate risks within the organisation.
Priority 1	Limited risk exposure -controls are working effectively, but could be strengthened to prevent the creation of minor risks or address general house-keeping issues.

MHA Henderson Loggie reports (from 2019/20)

Priority 1	Issue subjecting the College to material risk and which requires to be brought to the attention of management and the Audit Committee.
Priority 2	Issue 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.

Acknowledgments

We would like to thank all staff for the co-operation and assistance we received during the course of our reviews.

Appendix I - Updated Action Plan: Internal Audit Report – Non-Pay Expenditure and Creditors 2016/17 (Scott-Moncrieff)

Recommendation	Grade	Original Management Comments	SMT Action Owner	Original Date	Progress at July 2019	Progress at August 2020
We support management's plans to review the College's Scheme of Delegation. The revised document should clearly set out current purchasing approval processes and financial authorisation limits.	**2**	The College's Scheme of Delegation is currently being reviewed and will be revised to set out the relevant approval processes and authorisation limits. This will be made available to all staff on the public area of the Finance section in Sharepoint.	Director of Finance and Corporate Services	31/07/2017	It is intended to complete this activity over the summer period. ***Partially complete*** **Revised implementation date:** 30/09/2019	The high-level Scheme of Delegation was approved by the Board of Management on 21 September 2018. An Operations Scheme of Delegation has now been completed and approved by the LMT. Each SMT member is responsible for the purchases within their functions. Purchasing authority may be delegated (within guidelines) to Directors / Head of Finance, who may in turn delegate to Operations Managers, and Heads of Service. A separate document sets out the authorisation process by department, including 1st, 2nd and SMT approvers together with monetary thresholds. This is replicated in the P2P system. ***Fully Implemented***

Appendix II - Updated Action Plan: Internal Audit Report – Mental Health Services 2018/19 (Scott-Moncrieff)

Recommendation	Grade	Original Management Comments	SMT Action Owner	Original Date	Progress at July 2019	Progress at August 2020
The College should develop a training plan for all staff involved in supporting students with additional needs that is tailored to their individual role. This should include mental health awareness and the avenues of support available both within and outwith the College to ensure that staff are able to appropriately direct students. Where training is mandatory, staff completion should be appropriately monitored and reported.	**2**	An overarching Mental Health and Wellbeing Action Plan for FVC, covering students and staff will be created. This would link to the recent Student Mental Health Agreement (SMHA) and the Mental Health Learning Framework, part of the People Strategy. The Plan is a requirement in the College regional outcome agreement with the Scottish Funding Council.	Mhairi Shillinglaw	31/10/2019	An overarching mental health and wellbeing action plan is in development and will take into account this recommendation. ***Not Yet Due***	A Student Mental Health Action Plan 2019-2021 has now been produced and approved which includes actions to support and develop staff so that they can in turn better support their students. A Mental Health Learning Framework for staff has been designed to offer all College staff the opportunity to become involved in creating a culture of openness around mental health, by raising awareness, providing training and supporting staff to discuss personal concerns and recognise them in colleagues. Baseline and optional learning is set out for various management and staff groupings, including how this will be delivered. ***Fully Implemented***

Recommendation	Grade	Original Management Comments	SMT Action Owner	Original Date	Progress at July 2019	Progress at August 2020
Alongside the development of the Mental Health Services strategy, key measures and performance indicators should be identified. Reporting mechanisms should be agreed upon and implemented to ensure that information is presented on a regular and timely basis to the appropriate forum.	**2**	Work with key services (Learning Support; Wellbeing; Learner Advisers) to standardise approaches to information gathering, sharing and reporting, utilising where possible the most effective systems already available to do this, e.g., Unit E/ELS database as well as the new Triple S system. Agree with Leadership team the best regular reporting streams and have in place to implement in AY 2019/20.	Andrew Lawson / Mhairi Shillinglaw	31/08/2019	As part of the above plan, a reporting methodology will be included. ***Not Yet Due***	As above. The Student Mental Health Action Plan includes what impact the College expects to see and how this will be evidenced. Reporting systems are now in place with the Triple S process now being fully launched, giving the College clear data to analyse going forward. ***Fully Implemented***

Recommendation	Grade	Original Management Comments	SMT Action Owner	Original Date	Progress at July 2019	Progress at August 2020
Whilst we recognise that College staff are not professional counsellors, the College should ensure that the internal student assessment approach and the criteria for referring a student to external counselling are as consistent as possible with the counsellors assessment criteria, to minimise the number of incorrect referrals. In referral cases where the counsellor feels that the counselling is not necessary or appropriate, the College should aim to understand the reasoning behind this. This can be used as a learning tool to further improve services.	**2**	We have increased our counselling provision in the past month as a result of the increase in demand on the service. We will undertake a full review of the referral system we have in place and the sign posting activity we have in place with external provides with a view to improving the referral systems and ensure that those most in need can be refereed as quickly as possible.	Andrew Lawson	31/12/2019	Review of counselling provision and associated processes has commenced. ***Not Yet Due***	The College has utilised additional Scottish Government funding to move from approximately 1 FTE counselling provision which was externally provided to 2 FTE College roles split across three individuals (1 x FTE and 2 x 0.5FTE). With this change in process and increase in numbers, the counsellors themselves meet candidates and decide whether they need additional support or can be signposted to an external resource such as the Big White Wall, which is available to all students. ***Fully Implemented***

Appendix III - Updated Action Plan: Internal Audit Report 2020/02 – Student Activity Data 2018/19

Recommendation	Grade	Original Management Comments	To Be Actioned By	No Later Than	Progress at August 2020
Systems and Procedures for Compilation of Returns **Attendance Monitoring** **R1** The College should ensure that instances of non-attendance for students on school taster programmes are communicated to Student Records staff on a timely basis to ensure that the information in UNIT-e, which impacts the FES data and Credits claim, can be updated.	**3**	A report will be written to identify any students on school taster programmes who have never attended, which will be passed to the School Partnership Coordinator for action.	Student Records Manager	November 2019	A meeting was held with the Schools Partnership Coordinator on 24 October 2019 and a report is run on a regular basis to identify non-attending school taster programme pupils and withdrawal notifications are submitted timeously. This will be tested as part of our Student Activity Data audit for 2019/20. ***Fully Implemented***

Appendix IV - Updated Action Plan: Internal Audit Report 2020/04 – Student Engagement – Student Association

Recommendation	Grade	Original Management Comments	To Be Actioned By	No Later Than	Progress at August 2020
[redacted]					

Recommendation	Grade	Original Management Comments	To Be Actioned By	No Later Than	Progress at August 2020
R2 Develop and implement a new process whereby the College's IT Team disable user accounts if they are not activated within 30 days of the start of the student's course or, once activated, they are inactive for more than 90 days.	**3**	A script will be created to disable user accounts if they are not activated within 30 days of the start of the student's course, or through 90 days of student inactivity.	Head of IT	30 April 2020	A script has been written to disable a student's account based on either of the two scenarios described. A student can request to re-enable their account if necessary. In addition, the password creation system for students has been changed. It used to be their first log on was with their DOB which then prompted them to select their own password. The system now is that a direct link to create a password for their account is sent to each individual's external email address, reducing the chance of another user getting access to create the password for an individual's account. ***Fully Implemented***

Recommendation	Grade	Original Management Comments	To Be Actioned By	No Later Than	Progress at August 2020
[redacted]					

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Forth Valley College

Estates Maintenance

Internal Audit Report No: 2020/06

Draft issued: 28 August 2020

Final issued: 31 August 2020

LEVEL OF ASSURANCE	**Satisfactory**

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Contents

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 management and the Audit Committee.
Priority 2	Issue subjecting the organisation 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

Satisfactory	System meets control objectives with some weaknesses present.

Risk Assessment

While there are no specific estates risk within the current Forth Valley College (FVC) Strategic Risk Register (SRR), this review focused on the controls in place to mitigate the following risks where Estates Maintenance is a key activity:

- 5 – The College will fail to deliver the Outcome Agreement (current risk rating: 10 - medium); and
- 6 – The student experience fails to meet student expectations (current risk rating: 10 - medium)

Background

As part of the Internal Audit programme at FVC for 2019/20, we carried out a review of the key internal controls in place over its Estate Maintenance arrangements. Our Audit Needs Assessment, issued in August 2019, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to management and the Audit Committee that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Scope, Objectives and Overall Findings

An Estates Maintenance Strategy is currently under development. This review will examine the extent to which this new strategy will support lifecycle maintenance for the Falkirk, Stirling and Alloa campuses given the limitations on available funding.

The table below notes the objectives for this review and records the results:

Objective	Findings				
The specific objectives of this audit were to obtain reasonable assurance that:		**1**	**2**	**3**	**Actions already underway**
1. The College has an Estates Maintenance Strategy in place which is aligned with the College's strategic planning objectives and other relevant strategies.	**Satisfactory**	0	0	0	✓
2. Oversight of the Estates Maintenance Strategy, including review of implementation and funding risks, have been aligned to an appropriate committee reporting to the Board.	**Satisfactory**	0	0	2	
3. Progress made on lifecycle maintenance projects, and expenditure against budget, is monitored by management and an appropriate committee(s). The process includes arrangements to ensure value for money is achieved.	**Satisfactory**	0	0	0	Links to Objective 2
4. Regular condition surveys are undertaken, and other good quality information is available, to inform asset management decisions.	**Good**	0	0	0	
5. Plans are in place to maintain the College's assets in good condition, as economically as possible, and in line with manufacturer's warranty conditions in order to meet changing and rising standards as far as they can be foreseen.	**Good**	0	0	0	
6. There is a comprehensive cyclical testing and maintenance programme that covers all items requiring regular testing or maintenance under the relevant legal and regulatory framework.	**Good**	0	0	0	
Overall Level of Assurance	**Satisfactory**	**0**	**0**	**2**	
		System meets control objectives with some weaknesses present.			

Audit Approach

We reviewed the terms of the contract with the external contractor to identify the precise detail of contractual responsibilities. Through discussion with the Head of Estates and Operations Director Falkirk Campus, and review of documentation, we established the systems and controls which have been implemented to ensure that these responsibilities are being met. We have reported on areas where expected controls were found to be absent or where controls could be further strengthened.

Compliance testing was carried out where necessary to ensure that the controls in place are operating effectively.

Summary of Main Findings

Strengths

- There is a robust contract management process in place in relation to the facilities maintenance contract which provides effective assurance over:
  - Key Performance Indicators (KPI's) in place for the contractor, with monthly reporting of their performance against agreed standards;
  - Monthly monitoring of actual costs against the allocated budgets.
  - Identification and reclaiming of service credits;
  - Value for Money (VFM) benchmarking of contractor management fees: and
  - Quarterly contractor performance reviews;
- Effective planning is in place with the creation of annual plans based on a 10-year lifecycle replacement cost model;
- Plans ensure that statutory building compliance and required survey and warranty work is undertaken;
- There is an effective incident reporting and resolution process in place to resolve estates related issues;
- Funding is in place to deliver the agreed plans, there is currently no maintenance back logs; and
- A revised Estates Strategy has been drafted and submitted to the Senior Management Team for approval.

Weaknesses

- The Estates risks to FVC have not been fully articulated in either the departmental risk register or the SRR, in terms of building damage or loss, or lack of funding to ensure effective ongoing proactive, reactive maintenance or statutory compliance works; and
- While the Estates team participates in committees (such as Health and Safety and HR) and the Finance Committee has a role in terms of capital and revenue budgets, there is no specific management group or Board sub-committee with a remit to oversee the estates function within the College and provide the necessary review and assurance to the SMT and the College Board that the risks associated with Estates Maintenance are identified and managed.

Acknowledgements

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

Main Findings and Action Plan

Objective 1: The College has an Estates Maintenance Strategy in place which is aligned with the College's strategic planning objectives and other relevant strategies

A review of the current approach in place within FVC identified that with the completion of the new Falkirk Campus a revised Estates Maintenance Strategy has been drafted and submitted to the Senior Management Team (SMT) for approval.

While the absence of an up-to-date Estates Strategy was a weakness, this was mitigated by the use of a 10-year lifecycle replacement cost model for each building within the estate. The model uses a number of key assumptions including:

- Unimpeded access to areas to be refurbished;
- Economically sized replacement contracts placed, priced on a competitive basis;
- No unreasonable restrictions on working hours;
- All workmanships / installations / maintenances / operations / uses are in accordance with manufacturers' recommendations; and
- Like for like replacements for works and equipment replacement.

Using these factors, it enables FVC to forecast its maintenance needs and costs for the next 10 years. This lifecycle replacement cost model and its funding ensures buildings are maintained in line with their warranty and legal requirements, enabling the College to provide the required accommodation and facilities to deliver learning in line with its documented strategy.

Objective 2: Oversight of the Estates Maintenance Strategy, including review of implementation and funding risks, have been aligned to an appropriate committee reporting to the Board

As part of our audit we reviewed the current governance arrangements in place to ensure effective corporate oversight of the Estates Maintenance provision within FVC. Effective provision of the campus buildings and facilities is a key objective for FVC as highlighted in the 2019/20 outcome agreement with the Scottish Funding Council (SFC). A key delivery within the Regional Context Statement Priority Outcomes is to:

- Create a superb environment for learning.

Two of the stated actions to achieve this priority output are within the estates area, these are:

- Providing an effective lifecycle and maintenance strategy across all campuses; and
- Manage the successful completion of the new Falkirk Campus on time and within budget.

The effective maintenance of the estate is key to ensuring a superb environment for learning, ensuring that adequate and effective facilities are available for the delivery of the College's curriculum programmes. Therefore, any damage to the estate or inadequate funding for the planned maintenance programme can result in the loss of teaching provision and adversely impact on the ability of FVC to deliver its agreed curriculum programmes. This would potentially damage the College's reputation and may reduce future student recruitment and income.

Observation	Risks	Recommendation	Management Response
With the exception of a risk around completion and transition to the new Falkirk Campus and a fire related risk, a review of both the current departmental and the FVC Strategic Risk Register (SRR) did not identify estates related risks in terms of building damage or loss, or lack of funding to ensure effective ongoing proactive, reactive maintenance or statutory compliance works. Currently the risk is low due to the newness of the estate and the annual work plans that are aligned to the 10-year lifecycle replacement cost model which are currently being funded. However, there is no guarantee that the funding will continue to fully cover the maintenance plans nor the future Estates Strategy. The funding issues and their associated risks should be raised, assessed and managed in line with the College risk management policy.	Absence of effective funding for estate maintenance may result in the risk that FVC may not be able to deliver its agreed curriculum programme, damaging the reputation of the College and may adversely impact on future student recruitment and income.	**R1** The risks associated with not fully funding estate maintenance, and its potential risk to FVC in the delivery of its curriculum programme, should be identified and kept under review within both the departmental risk register and the Strategic Risk Register.	The College has commenced a review of lifecycle maintenance and funding matters and will reflect the risks associated with this in the College strategic risk register and departmental register as appropriate **To be actioned by:** Depute Principal **No later than:** 30 November 2020
			Grade 3

Objective 2: Oversight of the Estates Maintenance Strategy, including review of implementation and funding risks, have been aligned to an appropriate committee reporting to the Board (continued)

Observation	Risks	Recommendation	Management Response	
The audit also identified that there is no specific corporate or senior management body or committee that has formal oversight of the estates' maintenance within FVC. As highlighted above effective Estates Maintenance ensures that adequate and effective facilities are available for the delivery of the College's curriculum programmes. While the Estates team participates in committees (such as Health and Safety and HR), and the Finance Committee has a role in terms of capital and revenue budgets, there is no specific management group or Board sub-committee with a remit to oversee the estates function within the College and provide the necessary review and assurance to the SMT and the College Board that the risks associated with Estates Maintenance are identified and managed.	Absence of effective governance and oversight of the estates function may result in risks around the maintenance of the estate not being identified and mitigated. This may adversely impact on the delivery of the College's curriculum programme, damaging its reputation and potentially impacting on future student recruitment and income.	**R2** The College should review its strategic, governance and corporate oversight to identify a management group and / or a sub-committee of the Board that has a formal defined responsibility for the estates function to ensure that it maintains current teaching capability and any risks associated with the ability to maintain delivery of the curriculum are identified and mitigated.	This recommendation matches requests from the Board to ensure capital utilisation and maintenance is monitored. The Board Chair and Board Secretary have had discussions around how best to achieve this. Recommendations and a remit for this work will be taken to the Board of Management for consideration and approval in February 2021. **To be actioned by:** Vice Principal Finance and Corporate Affairs **No later than:** 28 February 2021	
			Grade	**3**

Objective 3: Progress made on lifecycle maintenance projects, and expenditure against budget, is monitored by management and an appropriate committee(s). The process includes arrangements to ensure value for money is achieved

The audit reviewed and assessed the processes in place to monitor the performance of the facilities contractor Atalian Servest against agreed plans, performance standards and budgets. The Head of Facilities Management and Health and Safety undertakes the annual planning with Atalian Servest and monitors their performance in delivery of these agreed plans.

Annual Plans are agreed with Atalian Servest to deliver:

- Prompt response to reactive maintenance requests.
- Planned programme of Preventive Maintenance (PPM) works;
- Programme of works to meet statutory building requirements; and
- Ensure the work is completed within the relevant legislation without damage to the College's reputation.

An agreed programme of work with Atalian Servest is undertaken considering the 10-year lifecycle replacement cost model in the following areas:

- Hard FM Services:
  - PPM schedule of works;
  - Management of electrical systems;
  - Operational management of fire systems;
  - Reactive maintenance;
  - Lifecycle management; and
  - Minor works and projects.

- Soft FM services:
  - Cleaning (including housekeeping and window cleaning);
  - Grounds maintenance;
  - Waste management;
  - Washroom services; and
  - Pest control.

Costings for these works have been agreed as part of the contract consideration and award process, with an agreed annual contractor price uplift. This gives FVC certainty over the Estates Maintenance costs. Management fees are also included as part of the contract. The agreed contract also specifies the required Key Performance Indicators (KPI's) that the contractor is required to attain in the delivery of the Hard and Soft facilities works and the contract management Helpdesk for the reporting of incidents.

Objective 3: Progress made on lifecycle maintenance projects, and expenditure against budget, is monitored by management and an appropriate committee(s). The process includes arrangements to ensure value for money is achieved (continued)

The Head of Facilities Management and Health and Safety undertakes the contractor performance monitoring. There are monthly KPI performance reports in the following areas:

- PPM;
- Reactive Maintenance;
- Meter Reading;
- Energy;
- Quotes;
- Incident Helpdesk;
- Cleaning; and
- Environmental reporting.

In addition, monthly invoices are received and reviewed against the work undertaken and agreed performance levels. Service credits are identified where agreed KPI's are not met and are offset against the invoiced amounts. There are also quarterly meetings with Atalian Servest to discuss current performance, identified issues and future work plans. In addition, benchmarking of the contractor management fees is also in place. These benchmarking reports confirm that FVC is obtaining Value for Money (VFM), with the current contractor management fees being within the bottom quartile of expected charges.

Audit reviewed the current contract management and monitoring processes in place and confirmed they are being effectively applied, with sufficient evidence of:

- Monthly KPI reporting;
- Monthly monitoring of actual budget costs against the allocated expected costs and budgets;
- Identification and reclaiming of service credits;
- VFM benchmarking of management fees: and
- Quarterly contractor performance reviews.

These contract management controls are applied by the Head of Facilities Management and Health and Safety who reports directly to the Depute Principal and Chief Operating Officer. As highlighted under Objective 2 there is no specific corporate or senior management body or committee that has oversight of the estates' maintenance within FVC. The absence of such oversight of this critical function within FVC reduces the effectiveness of the governance and assurance framework, and recommendation 2 has been made to address this weakness. But overall, the audit confirmed that effective contract management controls are in place and being consistently applied.

Objective 4: Regular condition surveys are undertaken, and other good quality information is available, to inform asset management decisions

Reviewing the current processes in place, the audit identified that as part of its agreed facilities contract with Atalian Servest there is an annual PPM plan in place which includes inspections and a programme of regular works on the buildings. Completion of these planned tasks identify any issues with the condition of the buildings. In addition, elements of the PPM work also include a planned programme of lifecycle replacement work, which is currently planned on a 10-year rolling programme for all sites. The current assumption is that, with the continued lifecycle replacement programme in place supported by the inspections and work carried out within the PPM programmes, it will ensure the buildings will have a lifespan of 60 years.

In addition to the planned programme of works, if urgent unplanned works are needed to address any issues identified during the inspections or the PPM works, additional funds are also available through either the contingency funds or the capital funding. The criticality of work will determine if it is carried out immediately as part of the reactive work programme or in included in future years PPM or as part of a future capital works programme.

Audit testing has confirmed that:

- Plans are in place within the PPM to complete building surveys;
- Funding streams are available to address any unplanned maintenance costs;
- Regular review and reporting of the performance of agreed plans and works are in place; and
- Effective management review and oversight of agreed contractor performance is in place.

Overall, the audit review confirms that effective control is in place and being applied effectively.

Objective 5: Plans are in place to maintain the College's assets in good condition, as economically as possible, and in line with manufacturer's warranty conditions in order to meet changing and rising standards as far as they can be foreseen

As highlighted under Objective 4 there is a planned programme of works in place, with a fully detailed lifecycle replacement programme in place covering the next 10 years and includes maintenance of the College's building assets and any building warranty requirements. These have been detailed within the contract agreed and currently being delivered by Atalian Servest. Due to the lifecycle replacement plans in place the costs of these planned works, including maintenance of the estate in line with the manufacturers' warranty conditions, have been agreed as part of the contract with Atalian Servest, with the provision of annual uplifts of the contractor costs. This enables the future Estates Maintenance costs to be identified and adequately funded.

The College is now in the position, with three new campuses being delivered in the past 10 years, that there is no maintenance backlog. Prior to the completion of the new Falkirk Campus, the maintenance backlog stood at £18m. Contractor performance against agreed work programmes is monitored through monthly oversight of the agreed KPI's and delivery of agreed plans with monthly contractor meetings in place.

Audit testing has confirmed that:

- Plans are in place for the next 10 years to maintain the College and its building assets in line with agreed manufacturer's warranty conditions;
- The costs of these works are known and are currently adequately funded;
- Regular reporting and review of the performance of agreed plans, costs and works are in place; and
- There is effective management review and oversight of agreed contractor performance.

Overall, the audit review confirms that effective control is in place and being applied effectively.

Objective 6: there is a comprehensive cyclical testing and maintenance programme that covers all items requiring regular testing or maintenance under the relevant legal and regulatory framework.

The audit reviewed the current plans in place with the contractor as part of the annual maintenance PPM activities and confirmed it does include the required statutory building and compliance works. These were agreed as part of the contract with Atalian Servest along with the cost of their delivery as part of the pricing model within the Total Facilities Management (TFM) contract. Annual plans are in place within the PPM for the delivery of the statutory compliance and building works.

Audit testing has confirmed that:

- Plans are in place for the annual delivery of the statutory building compliance works;
- Regular reporting and review of the performance of agreed plans and works are in place; and
- There is effective management review and oversight of agreed contractor performance.

Overall, the audit review confirms that effective control is in place and being applied effectively.

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Forth Valley College

Financial Planning

Internal Audit Report No: 2020/07

Draft issued: 4 September 2020

Final issued: 7 September 2020

LEVEL OF ASSURANCE	**Good**

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Contents

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 management and the Audit Committee.
Priority 2	Issue subjecting the organisation 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

Good	System meets control objectives.

Risk Assessment

This review focused on the controls in place to mitigate the following risks on Forth Valley College's ('the College') Strategic Risk Register:

- 1 – There is insufficient funding from Scottish Government / SFC to support the core activities of the College (risk score: high);
- 2 – The ongoing impact of the COVID-19 pandemic will materially impact on the College's delivery and financial sustainability (risk score: high); and
- 4 – National Bargaining process will negatively impact on the College (risk score: amber).

Background

As part of the Internal Audit programme at the College for 2019/20 we carried out a review of the College's financial planning arrangements. Our Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Principal and the Audit Committee that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The College is required to prepare and submit a Financial Forecast Return (FFR), annually, for the current financial year and normally for the following five financial years. This is submitted to the Scottish Funding Council (SFC). The FFR is routinely submitted at the end of June, but the deadline was extended to late September for 2019 to allow colleges and regional strategic bodies sufficient time to fully take account of key planning assumptions within their financial returns. The FFR submitted in 2019 was based on the 2018/19 and 2019/20 budgets, with figures for financial years 2020/21, 2021/22, 2022/23 and 2023/24 informed by historic actual figures and the application of a range of assumptions to arrive at forecast figures.

The College was in the process of finalising the 2020 FFR during our audit fieldwork. Due to the COVID-19 pandemic, an exception to the normal approach was allowed with only three-year forecasts to 2022/23 required on this occasion. This was submitted to the SFC in July 2020, although it was stressed that the figures were subject to approval by the Board of Management and that the College's budget for 2020/21 would be finalised for presentation to the Board in September 2020 for formal approval.

Scope, Objectives and Overall Findings

The scope of our audit was to review the College's long-term financial planning arrangements to consider whether these were aligned with good practice.

The table below notes the objectives for this review and records the results:

Objective	Findings				Actions already underway
The specific objectives of this audit were to obtain reasonable assurance that:		**1**	**2**	**3**	
1. The College has developed a long-term financial strategy, which includes long-term financial forecasts.	**Satisfactory**	0	0	0	✓
2. The College is engaged with the Scottish Funding Council (SFC) to develop its approach to long-term financial forecasting.	**Good**	0	0	0	
3. Assumptions used in the financial forecasting returns submitted to the SFC are robust, realistic and applied consistently.	**Good**	0	0	0	
4. Any departure from the SFC guidance on common sector assumptions is justified to the Board of Management, auditors and to the SFC.	**Good**	0	0	0	
Overall Level of Assurance	**Good**	**0**	**0**	**0**	
		System meets control objectives			

Audit Approach

From discussion with the Vice Principal Finance and Corporate Affairs and the Head of Finance, and review of financial plans and forecasts, we assessed compliance with the above objectives.

As the College was in the process of finalising the 2020 FFR during our audit it was agreed with the Vice Principal Finance and Corporate Affairs that we should examine the process for preparing the 2019 FFR because a similar process was being followed for 2020.

Financial Planning

Summary of Main Findings

Strengths

- The College's Strategic Plan covers the period 2017 to 2022 and this sets out, at a high-level, the financial aims and goals of the College and how it will achieve these.
- The FFR is the main tool used by the College for financial planning.
- The Board / Finance Committee previously recognised that a separate Finance Strategy or Financial Plan was an area for further development and this has led to the introduction, in late 2019, of the 'Futures Programme' which is focussed on the medium term financial viability of the College covering the period 2018/19 to 2023/24.
- The College has robust processes for developing the FFR on an annual basis.
- The College applies the standard SFC assumptions for the FFR, unless there is a sound rationale for departing from these assumptions. Any variation from the SFC assumptions is communicated to the Board and the SFC.

Weaknesses

- Although there were no significant weaknesses identified during our review, we noted that the College's 2020/21 budget had still to be finalised and approved by the Board of Management. However, we do appreciate the extraordinary circumstances encountered this year and we do recognise that a draft budget had been considered by both the Finance Committee and Board in June 2020, with the College now actively working to deliver a balanced budget by the end of September 2020.

Acknowledgements

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

Main Findings

Objective 1: The College has developed a long-term financial strategy, which includes long-term financial forecasts.

The College's Strategic Plan covers the period 2017 to 2022 and sets out at a high-level the financial aims and goals of the College and how it will achieve these. The College does not have a specific Finance Strategy or Financial Plan document in place and the Financial Forecast Return (FFR) is the main tool utilised by the College for financial planning. This normally includes five-year forecasts and accompanying narrative and is submitted to the Scottish Funding Council (SFC) and the Board of Management for approval. Management advised that a separate Financial Strategy or Financial Plan has been noted by the Board / Finance Committee as an area for further development by the College and this was the catalyst for the introduction, in late 2019, of the 'Futures Programme' which is focussed on the medium term financial viability of the College covering the period 2018/19 to 2023/24. The intentions of this programme were set out in the FFR commentary submitted to the SFC. This is aligned to the Strategic Plan.

The annual budget for 2019/20 was approved by the Board in June 2019. The 2019/20 budget was incorporated into the FFR reported to the SFC in September 2019, with the 2019/20 budget providing the platform for forecasts for the years 2020/21 to 2023/24.

The 2020 FFR was in the process of being finalised during our audit fieldwork. Due to the uncertainty caused by the COVID-19 pandemic, the SFC only requested a forecast for a three-year period rather than the normal five-year period. As requested by the SFC, the College submitted a fully balanced three-year FFR in July 2020, which reflected the adjusted operating results (i.e. after adding back net depreciation and non-cash pension adjustments etc.). The FFR had been balanced wholly with staffing reductions, although this was subject to further consideration as part of the finalisation of the 2020/21 budget, which was to be presented to the Board in September 2020 for approval. A draft budget for 2020/21, showing a deficit position, was previously considered by the Finance Committee and the Board in June 2020, and the Board committed to delivering a balanced budget by the end of September 2020.

Financial Planning

Objective 1: The College has developed a long-term financial strategy, which includes long-term financial forecasts (Continued).

As agreed with the Vice Principal Finance and Corporate Affairs we focussed on the FFR submitted in September 2019 for the purposes of our audit. We reviewed the papers regarding the 2019/20 budget and financial plan which were provided to the Finance Committee and the Board in June 2019 and we considered that these provided sufficient information regarding the College's medium to long term financial planning.

The 2019 FFR was broadly similar to previous years, but did include several changes, including the addition of a cash flow worksheet and a pensions worksheet to capture details of employer contributions to the Scottish Teachers Superannuation Scheme (STSS) and Local Government Pension Scheme (LGPS) over the planning period. This additional detail was provided to allow the SFC to gain a better understanding of the cost pressures brought about by the recent changes in employers' contributions.

The College budget performance is monitored closely throughout the year by management and is reported to the Finance Committee.

Financial Planning

Objective 2: The College is engaged with the Scottish Funding Council (SFC) to develop its approach to long-term financial forecasting.

Through discussion with management, we noted that to date there has not been any significant specific engagement with SFC to develop the approach to dealing with the long-term financial concerns facing the College. The provision of the FFR to SFC, and continuing dialogue with the SFC, is the means by which the College communicates to the SFC the funding issues that it is facing.

Sector funding concerns are raised at the Finance Development Network, which is comprised of College Heads of Finance, Directors of Finance and Vice Principals, and meets once a month. As part of the Scottish Government's Budget for fiscal year 2020/21, delivered in February 2020, a further £7 million of funding was announced for the College sector. However, at the time of our audit fieldwork the details around the specific purpose, or how this funding would be allocated across the sector, had not been released.

Objective 3: Assumptions used in the financial forecasting returns submitted to the SFC are robust, realistic and applied consistently.

The SFC provides colleges with common financial planning assumptions to utilise when preparing their forecasts. The FFR guidance sets out a range of assumptions which should be applied. In some areas the guidance provides more flexibility and advises that each college should define their own appropriate assumptions.

The College's 2019 FFR highlighted that although the College was forecasting an accounting deficit over the period 2019/20 to 2023/24, it was anticipating an underlying surplus during this period. To gain comfort that the 2019 FFR return figures (including assumptions) were robust, realistic and applied consistently we conducted the following work on each financial year within the FFR:

- **2018/19 Forecast:** We compared the FFR figures to the 2018/19 audited financial statements and found these figures to be reasonable;
- **2019/20 Forecast:** This was based on the approved 2019/20 budget and we checked whether the FFR agreed to the budget. No significant differences in the overall budgeted accounting deficit approved by the Board were noted; and
- **For 2020/21, 2021/22, 2022/23 and 2023/24:** We reviewed the assumptions made and noted that these were appropriately applied and largely in line with the SFC financial planning assumptions. The SFC FFR guidance, issued in June 2019, provided details of indicative funding allocations for the period to 2023/24 for planning purposes.

Financial Planning

Objective 4: Any departure from the SFC guidance on common sector assumptions is justified to the Board of Management, auditors and to the SFC.

As noted under Objective 3, we reviewed the SFC assumptions set out in the 2019 FFR guidance and checked that these had been incorporated within the FFR submitted in September 2019 and did not identify any significant departures.

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Forth Valley College

Internal Audit Progress Report
2019/20 Annual Plan

10 September 2020

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Internal Audit Progress Report
September 2020

Progress made in delivering the annual plan for 2019/20, issued in September 2019, is shown below.

Audit Area	Planned reporting date	Report status	Report Number	Overall Conclusion	Audit Committee	Comments
Strategic Internal Audit Plan 2019 to 2022 and Outline Internal Audit Annual Plan 2019/20	September 2019	Draft 29/08/19 2nd Draft 04/09/19 3rd Draft 20/09/19 Final 12/11/19	2020/01	N/A	05/09/19	
Student Engagement – Student Association	November 2019	Draft 06/11/19 Final 11/11/19	2020/04	**Satisfactory**	19/11/19	
Estates Maintenance	May 2020	Draft 28/08/20 Final 31/08/20	2020/06	**Satisfactory**	10/09/20	Fieldwork start date was deferred due to COVID-19 pandemic.
Financial Planning	September 2020	Draft 04/09/20 Final	2020/07	**Good**	10/09/20	Draft report issued to College management for comment.

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Audit Area	Planned reporting date	Report status	Report Number	Overall Conclusion	Audit Committee	Comments
Business Development Process (BPR)	May 2020	Draft 06/01/20 Final 07/02/20	2020/05	N/A	21/05/20	The review identified several areas for investigation or improvement through facilitated focus group sessions and interviews with staff. Actions were prioritised for the College to take forward. All of the identified actions were improvement actions designed to enhance efficiency and effectiveness. No issues subjecting the College to material or significant risk were identified during the review.
Credits audit	November 2019	Draft 15/10/19 Final 21/10/19	2020/02	Audit opinion unqualified	19/11/19	
Student Support Funds	November 2019	Draft 06/11/19 Final 13/11/19	2020/03	Audit opinions unqualified	19/11/19	
Follow-Up Reviews	September 2020	Draft 27/08/20 Final 31/08/20	2020/08	All 8 of the actions reviewed classified as Fully Implemented.	10/09/20	

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.

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Forth Valley College

Annual Report to the Board of Management and Principal on the Provision of Internal Audit Services for 2019/20

Internal Audit Report No: 2020/09

Draft issued: 7 September 2020

Final issued: 7 September 2020

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Contents

1. Annual Report and Opinion

Introduction

1.1 We were appointed as internal auditors of Forth Valley College ('the College') for the period 1 August 2019 to 31 July 2022, with an option to extend for a further 12-months subject to satisfactory performance and continued College requirements. This report summarises the internal audit work performed during 2019/20.

1.2 A Strategic Internal Audit Plan 2019 to 2022, based on the areas of risk that the College is exposed to, was prepared (Internal Audit Report 2020/01, issued August 2019). The Strategic Internal Audit Plan was prepared following discussion with members of the College Leadership Team and the Chair of the Audit Committee, and from a review of various College documents and previous internal audit reports and the College's Strategic Risk Register. This was supplemented by our own assessment of the risks faced by the College. The Strategic Internal Audit Plan was approved by the Audit Committee at its meeting on 5 September 2019.

1.3 The internal audit work undertaken in the year followed that set out in the Strategic Internal Audit Plan for 2019/20.

1.4 The reports submitted during 2019/20 are listed in Section 2 of this report and a summary of results and conclusions from each finalised assignment is given at Section 3.

1.5 An analysis of time spent against budget is included at Section 4.

Public Sector Internal Audit Standards (PSIAS) Reporting Requirements

1.6 The College has responsibility for maintaining an effective internal audit activity. You have engaged us to provide an independent, risk-based assurance and consultancy internal audit service. To help you assess that you are maintaining an effective internal audit activity we:

- Confirm our independence;
- Provide information about the year's activity and the work planned for next year in this report; and
- Provide quality assurance through self-assessment and independent external review of our methodology and operating practices.

Public Sector Internal Audit Standards (PSIAS) Reporting Requirements (Continued)

1.7 Self-assessment is undertaken through:

- Our continuous improvement approach to our service. We will discuss any new developments with management throughout the year;
- Ensuring compliance with best professional practice, in particular the PSIAS;
- Annual confirmation from all staff that they comply with required ethical standards and remain independent of clients;
- Internal review of each assignment to confirm application of our methodology which is summarised in our internal audit manual; and
- Annual completion of a checklist to confirm our PSIAS compliance. This is undertaken in April.

1.8 The results of our self-assessment are that we are able to confirm that our service is independent of the College and complies with the PSIAS.

1.9 External assessment is built into our firm-wide quality assurance procedures. Henderson Loggie LLP is a member of MHA, a national association of independent accountancy firms. Continued membership of MHA is dependent on maintaining a high level of quality and adhering to accounting and auditing standards in the provision of our services. Annual quality reviews are conducted to confirm our continuing achievement of this quality. The independent MHA review conducted in March 2019 included our internal audit service. Overall, the review confirmed that the firm's policies and procedures relating to internal audit were compliant with the PSIAS in all material respects.

Significant Issues

1.10 There were no issues identifying major internal control weaknesses noted from the internal audit work carried out during the year. In general, procedures were operating well in the areas selected, but a few areas for further strengthening were identified and action plans have been agreed to address these issues. The agreed actions not already followed-up during 2019/20 will be followed-up as part of our planned activity in 2020/21.

Opinion

1.11 In our opinion, 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 2019/20, including follow-up of recommendations made in reports prepared by the College's previous internal auditors.

2. Reports Submitted

Number	Title	Overall Grade	Recommendations	Priority 1	Priority 2	Priority 3
2020/01	Strategic Internal Audit Plan 2019 to 2022 and Outline Internal Audit Annual Plan 2019/20	**N/A**	N/A	N/A	N/A	N/A
2020/02	Credits Audit	**Audit opinion unqualified**	1	-	-	1
2020/03	Student Support Funds	**Audit opinion unqualified**	-	-	-	-
2020/04	Student Engagement – Student Association	**Satisfactory**	3	-	1	2
2020/05	Business Development BPR	**N/A**	N/A	N/A	N/A	N/A
2020/06	Estates Maintenance	**Satisfactory**	2	-	-	2
2020/07	Financial Planning	**Good**	-	-	-	-
2020/08	Follow-Up Reviews	**N/A**	All 8 of the actions reviewed were classified as Fully Implemented.	-	-	-

Overall 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 management and the Audit and Performance Committee.
Priority 2	Issue subjecting the organisation 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.

3. Summary of Results and Conclusions

2020/01 – Strategic Internal Audit Plan 2019 to 2022 and Outline Internal Audit Annual Plan 2019/20

Final Issued – 12 November 2019

The purpose of this document was to present, for consideration by the Audit Committee, the Strategic Plan for 2019 to 2022 and the outline annual internal audit operating plan for the year ended 31 July 2020. The outline scope, objectives and audit approach for each audit assignment to be undertaken, arrived at following discussion with the College Leadership Team, were set out in the report.

2020/09 – Student Activity Data (Credits) 2018/19

Final Issued – 21 October 2019

In accordance with the Credits Audit Guidance we reviewed and recorded the systems and procedures used by the College in compiling the returns and assessed and tested their adequacy. We carried out further detailed testing, as necessary, to enable us to conclude that the systems and procedures were working satisfactorily as described to us.

Detailed analytical review was carried out, including a comparison with last year's data, obtaining explanations for significant variations by Dominant Programme Group (DPG) and dominant Price Group.

Our testing was designed to cover the major requirements for recording and reporting fundable activity identified at Annex C to Credits Audit Guidance and the key areas of risk identified in Annex D.

Our report was submitted to the SFC on 9 October 2019. We reported that, in our opinion:

- the student data returns have been compiled in accordance with all relevant guidance;
- adequate procedures are in place to ensure the accurate collection and recording of the data; and
- on the basis of our testing we can provide reasonable assurance that the FES return contains no material mis-statement.

One minor recommendation was made in our report: the College should ensure that instances of non-attendance for students on school taster programmes are communicated to Student Records staff on a timely basis to ensure that the information in UNIT-e, which impacts the FES data and Credits claim, can be updated.

2020/03 – Student Support Funds 2018/19

Final Issued – 13 November 2019

We carried out an audit on the following fund statements for the 2018/19 academic year: Higher Education Discretionary Fund; Further Education Discretionary Fund, Further and Higher Education Childcare Fund and Bursary Return; and Education Maintenance Allowance (EMA) Return.

The audit objectives were to ensure that:

- the College complies with the terms, conditions and guidance notes issued by SFC, the Student Awards Agency for Scotland and the Scottish Government;
- payments to students are genuine claims for hardship, bursary or EMA, and have been processed and awarded in accordance with College procedures; and
- the information disclosed in each of the returns for the year ending 31 July 2019 is in agreement with underlying records.

We were able to certify all fund statements for the year and submit these to the appropriate bodies, without reservation.

In our covering letter to the SFC enclosing the audited EMA Return we made the following observation. Total EMA payments of £171,090 were made by the College in the year-ended 31 July 2019 compared with £169,080 included in the monthly returns and year-end statement. The difference of £2,010 was investigated by the College and found to relate to an underclaim in February 2019 due to incorrect cut-off dates being used and, as a result, transactions being missed from the monthly return, and these were to be added on the monthly return for November 2019.

In addition, the following minor point was noted during the course of our audit:

Bursary Fund
From our testing of the Bursary Fund, we noted that, due to an administrative error, one student received a small overpayment of £212.54 as a result of initially being assessed as a parentally supported student but later identified as a care experienced student. As a result of the re-calculation, the student received an additional one week care experienced maintenance rate plus one week travel allowance in error.

[redacted]

[redacted]

2020/05 – Business Development – Business Process Review (BPR)

Final Issued – 7 February 2020

As part of the Internal Audit programme at the College for 2019/20 we facilitated a BPR of business development activities within the College. This included:

- Bespoke and standard commercial courses carried out at the College or off-site;
- Commercial courses offered to members of the public, and for which businesses could put staff on to;
- Modern Apprenticeships (MAs) and Vocational Qualifications (VQs); and
- The Flexible Workforce Development Fund (FWDF).

The purpose of the review was to identify inefficiencies in existing processes, and to help identify a more effective and efficient process starting from the identification of opportunities, through to securing work, contracting for this, and invoicing. Delivery of the work was excluded from this review.

The specific objectives of our audit were to identify suggestions to simplify the process by taking into account whether:

- the scope of activity included within the process is appropriate;
- there is clarity amongst the staff involved in the process on the approach to be adopted;
- the agreed costing methodology is reviewed and is applied consistently;
- the methodology for calculating direct and indirect costs is sensible and proportionate;
- authorisation requirements, at the various stages of the evaluation process, are aligned to the risk and size of the opportunity being evaluated;
- the contracting and invoicing processes are appropriate;
- customer relationship / experience is appropriately managed; and
- any non-value adding steps in the process are identified.

The review identified a wide range of opportunities for potential change in order to enhance efficiency, effectiveness, and customer service. No issues were identified during our review which would subject the College to material or significant risk. The key areas for improvement noted during the work were:

- streamlining the 'Business Development Process' to use standard costings for standard course provision, and only requiring a tailored costing to be undertaken for specific bespoke work;
- having a fully joined up workflow process from opportunity identification through to invoicing, to ensure that all opportunities are being progressed on a timely basis and are invoiced appropriately;
- making improvements to the existing website configuration to make it easier to use and to streamline the associated underlying administration processes;
- working to automate or batch process specific actions, such as setting up students on VQ Management and One File systems;
- Making refinements to the FWDF database and systems;
- In the longer term developing a Customer Relationship Management (CRM) database, and creating a culture within the College whereby all staff who make contact with commercial clients capture these interactions and can access this shared intelligence; and
- Working to develop more detailed reports so there is greater transparency over the income, expenditure and margins of each of the College's main commercial activities.

2020/06 – Estates Maintenance

Final Issued – 31 August 2020

An Estates Maintenance Strategy was under development. The scope of this audit was to examine the extent to which this new strategy would support lifecycle maintenance for the Falkirk, Stirling and Alloa campuses given the limitations on available funding.

The table opposite notes the objectives for this review and records the result.

Strengths

- There was a robust contract management process in place in relation to the facilities maintenance contract which provided effective assurance over:
  - Key Performance Indicators (KPI's) in place for the contractor, with monthly reporting of their performance against agreed standards;
  - Monthly monitoring of actual costs against the allocated budgets.
  - Identification and reclaiming of service credits;
  - Value for Money (VFM) benchmarking of contractor management fees: and
  - Quarterly contractor performance reviews;
- Effective planning was in place with the creation of annual plans based on a 10-year lifecycle replacement cost model;
- Plans ensured that statutory building compliance and required survey and warranty work was undertaken;
- There was an effective incident reporting and resolution process in place to resolve estates related issues;
- Funding was in place to deliver the agreed plans, there were no maintenance back logs; and
- A revised Estates Strategy had been drafted and submitted to the Senior Management Team for approval.

Objective	Findings			
		1	2	3
The specific objectives of this audit were to obtain reasonable assurance that:		No. of Agreed Actions		
1. The College has an Estates Maintenance Strategy in place which is aligned with the College's strategic planning objectives and other relevant strategies.	**Satisfactory**	0	0	0
2. Oversight of the Estates Maintenance Strategy, including review of implementation and funding risks, have been aligned to an appropriate committee reporting to the Board.	**Satisfactory**	0	0	2
3. Progress made on lifecycle maintenance projects, and expenditure against budget, is monitored by management and an appropriate committee(s). The process includes arrangements to ensure value for money is achieved.	**Satisfactory**	0	0	0
4. Regular condition surveys are undertaken, and other good quality information is available, to inform asset management decisions.	**Good**	0	0	0
5. Plans are in place to maintain the College's assets in good condition, as economically as possible, and in line with manufacturer's warranty conditions in order to meet changing and rising standards as far as they can be foreseen.	**Good**	0	0	0

2020/06 – Estates Maintenance (Continued)

Weaknesses

- The Estates risks to FVC had not been fully articulated in either the departmental risk register or the Strategic Risk Register, in terms of building damage or loss, or lack of funding to ensure effective ongoing proactive, reactive maintenance or statutory compliance works; and
- While the Estates team participated in committees (such as Health and Safety and HR) and the Finance Committee had a role in terms of capital and revenue budgets, there was no specific management group or Board sub-committee with a remit to oversee the estates function within the College and provide the necessary review and assurance to the SMT and the College Board that the risks associated with Estates Maintenance were identified and managed.

6. There is a comprehensive cyclical testing and maintenance programme that covers all items requiring regular testing or maintenance under the relevant legal and regulatory framework.	**Good**	0	0	0
Overall Level of Assurance	**Satisfactory**	**0**	**0**	**2**
		System meets control objectives with some weaknesses present		

2020/07 – Financial Planning

Final Issued – 7 September 2020

The scope of our audit was to review the College's long-term financial planning arrangements to consider whether these were aligned with good practice.

The table opposite notes the objectives for this review and records the result.

Strengths

- The College's Strategic Plan covered the period 2017 to 2022 and this set out, at a high-level, the financial aims and goals of the College and how it would achieve these.
- The Financial Forecast Return (FFR) was the main tool used by the College for financial planning.
- The Board / Finance Committee previously recognised that a separate Finance Strategy or Financial Plan was an area for further development and this had led to the introduction, in late 2019, of the 'Futures Programme' which was focussed on the medium term financial viability of the College covering the period 2018/19 to 2023/24.
- The College had robust processes for developing the FFR on an annual basis.
- The College applied the standard SFC assumptions for the FFR, unless there was a sound rationale for departing from these assumptions. Any variation from the SFC assumptions was communicated to the Board and the SFC.

Objective	Findings			
		1	2	3
The specific objectives of this audit were to obtain reasonable assurance that:		**No. of Agreed Actions**		
1. The College has developed a long-term financial strategy, which includes long-term financial forecasts.	**Satisfactory**	0	0	0
2. The College is engaged with the Scottish Funding Council (SFC) to develop its approach to long-term financial forecasting.	**Good**	0	0	0
3. Assumptions used in the financial forecasting returns submitted to the SFC are robust, realistic and applied consistently.	**Good**	0	0	0
4. Any departure from the SFC guidance on common sector assumptions is justified to the Board of Management, auditors and to the SFC.	**Good**	0	0	0
Overall Level of Assurance	**Good**	**0**	**0**	**0**
		System meets control objectives		

2020/07 – Financial Planning (Continued)	
Weaknesses • Although there were no significant weaknesses identified during our review, we noted that the College's 2020/21 budget had still to be finalised and approved by the Board of Management. However, we did appreciate the extraordinary circumstances encountered this year and recognised that a draft budget had been considered by both the Finance Committee and Board in June 2020, with the College actively working to deliver a balanced budget by the end of September 2020.	

2020/08 – Follow-Up Reviews

Final Issued – 31 August 2020

We carried out a follow-up review of the recommendations made in Internal Audit reports issued during 2019/20 and reports from earlier years prepared by the College's previous internal auditors Scott-Moncrieff that had either not already been subject to follow-up or where previous follow-up identified recommendations outstanding. These were:

- Non-Pay Expenditure and Creditors 2016/17;
- Mental Health Services 2018/19;
- Report 2020/02 – Student Activity Data 2018/19; and
- Report 2020/04 – Student Engagement – Student Association.

The objective of our follow-up review was to assess whether recommendations made in previous audit reports had been appropriately implemented and to ensure that where little or no progress had been made towards implementation, that plans were in place to progress them.

The College had made excellent progress in implementing the recommendations followed-up as part of this review with all eight recommendations being assessed as 'fully implemented'.

Our findings from each of the follow-up reviews has been summarised below:

2020/08 – Follow-Up Reviews (Continued)

From Original Reports		From Follow-Up Work Performed			
Area	**Rec. Grades**	**Number Agreed**	**Fully Implemented**	**Partially Implemented**	**Little or No Progress Made**
Non-Pay Expenditure and Creditors 2016/17	**4**	-	-	-	-
	3	-	-	-	-
	2	1	1	-	-
	1	-	-	-	-
Total		**1**	**1**	,	-
Mental Health Services 2018/19	**4**	-	-	-	-
	3	-	-	-	-
	2	3	3	-	-
	1	-	-	-	-
Total		**3**	**3**	**-**	**-**
Student Activity Data 2018/19	**1**	-	-	-	-
	2	-	-	-	-
	3	1	1	-	-
Total		**1**	**1**	**-**	**-**

2020/08 – Follow-Up Reviews (Continued)

From Original Reports			From Follow-Up Work Performed		
Area	**Rec. Grades**	**Number Agreed**	**Fully Implemented**	**Partially Implemented**	**Little or No Progress Made**
Student Engagement – Student Association	**1**	-	-	-	-
	2	1	1	-	-
	3	2	2	-	-
Total		**3**	**3**	**-**	**-**
Overall Total		**8**	**8**	**-**	**-**

The grades, as detailed below, denote the level of importance that should have been given to each recommendation:

MHA Henderson Loggie reports (from 2019/20)

As per grading system set out on page 4.

Scott-Moncrieff reports (2018/19 and before)

Priority 4	Very high risk exposure -major concerns requiring immediate senior attention that create fundamental risks within the organisation.
Priority 3	High risk exposure -absence / failure of key controls that create significant risks within the organisation.
Priority 2	Moderate risk exposure -controls are not working effectively and efficiently and may create moderate risks within the organisation.
Priority 1	Limited risk exposure -controls are working effectively, but could be strengthened to prevent the creation of minor risks or address general house-keeping issues.

4. Time Spent – Actual v Budget

	Report number	Planned days	Actual days fee'd	Days to fee at Sep 20	Days to spend / WIP	Variance
Student Experience						
Student Engagement/ Students' Association	2020/04	5	5	-	-	-
Estates and Facilities						
Estates maintenance	2020/06	5	-	5	-	-
Financial Issues						
Financial planning	2020/07	3	-	3	-	-
Commercial Issues						
Business Development Process BPR	2020/05	10	10	-	-	-
Other Audit Activities						
Credits audit	2020/02	5	5	-	-	-
Student Support Funds	2020/03	7	7	-	-	-
Management and Planning)	2020/01	5	4	1	-	-
External audit / SFC)						
Attendance at Audit Committee)						
Follow-up reviews	2020/08	2	-	2	-	-
		______	____	____	_____	______
Total		42	31	11	-	-
		======	====	====	=====	======

5. Operational Plan for 2020/21

5.1 Following our appointment as Internal Auditors for the period from 1 August 2019 to 31 July 2022, a Strategic Internal Audit Plan was prepared for 2019 to 2022 (Internal Audit Report 2020/01, issued in August 2019).

5.2 The annual operating plan for 2020/21 shows two changes to the allocation set out in the above Strategic Plan. Following discussion with the College Leadership Team two assignments originally proposed for 2020/21, Student Application Process BPR and Corporate Planning / Service Redesign, have been deferred to 2021/22. In their place, two assignments have been brought forward from 2021/22, Corporate Governance and Business Continuity. The Corporate Governance days will be used to carry out an Externally Facilitated Effectiveness Review as required by the Code of Good Governance for Scotland's Colleges, which is due to be submitted to the Scottish Funding Council by 'Spring 2021' in line with the latest advice from the Chair of the Good Governance Steering Group. The Business Continuity review will have a specific focus around the work that has been undertaken to allow College operations to continue during the COVID-19 pandemic and preparations for the reopening of College campuses once the lockdown is eased. The number of days for each assignment have been revised to allow sufficient time for the work required whilst keeping the total programme for each year within the allotted 42 annual days.

5.3 An extract from the revised Strategic Plan, in relation to 2020/21, is shown below.

Internal Audit Annual Report 2019/20

Proposed Allocation of Audit Days

	Category	Priority	Planned 20/21 Days
Reputation			
Health and Safety	Gov	M	5
Organisational Issues			
Business Continuity	Perf	H	7
Corporate Governance	Gov	L/M	6
Information and IT			
IT network arrangements	Perf	M	5
Other Audit Activities			
Credits audit		Required	5
Student Support Funds		Required	7
Management and Planning)			5
External audit / SFC)			
Attendance at Audit Committee)			
Follow-up reviews		Various	2
			———
Total			42
			====

Key:

Category: Gov = Governance; Perf = Performance; Fin = Financial

Priority: H – High; M – Medium; L – Low

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10. Progress Report on Audit Recommendations
For Discussion

5 October 2020
AUDIT COMMITTEE

1. Purpose

To update members on progress with the implementation of recommendations contained within internal and external audit reports.

2. Recommendation

That members note the content of the report and associated appendix.

3. Background

The College monitors progress against internal and external audit recommendations and reports on progress to each meeting of the Audit Committee.

4. Summary of Changes

As reported at the meeting of 21 May 2010, all audit recommendations had reached a stage the College considered to be complete. While there was an audit report presented at the May Committee meeting, this report had no recommendations to add to the tracker.

The table below represents a summary of the current position of these recommendations as at 10 September 2020.

	Grade 1	Grade 2	Grade 3	Total
Live within date	0	0	0	0
Live recommendation passed implementation date	0	0	0	0
Completed since last report to Committee	0	0	0	0

5. Financial Implications

There are no unexpected financial implications expected.

6. Equalities

Assessment in Place? – Yes ☐ No ☒

Monitoring of audit recommendations does not require equalities assessment. Where a recommendation does have an equalities impact through the amendment to policy, each individual policy will be assessed in line with College procedure.

7. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		
Medium		
Low		
Very Low		

As there are no recommendations at this point, the risk score for this activity is nil.

Risk Owner – Alison Stewart

Action Owner – Stephen Jarvie

8. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes ☐ **No** ☒

Health and Safety – Yes ☐ **No** ☒

Paper Author – Stephen Jarvie

SMT Owner – Alison Stewart

1. Purpose

To present members with the Strategic Risk and Covid-19 specific risk registers for the College.

2. Recommendation

That members note the content of the register attached to this paper and the actions taken to date.

3. Background

The College continues to monitor Strategic Risks to the College. These risks are discussed at SMT meetings and are also brought to each meeting of the Audit Committee.

In line with the College Risk Management Policy, specific separate risk registers can be created for significant projects or to provide information on specific large-scale risks.

4. Changes to the risk register

Strategic Risk Register

The Strategic Risk Register which is included as appendix 1 for information.

Changes since the last meeting of the committee are –

Risk ID2 – Likelihood and Impact have been reduced based upon the content of the COVID-19 specific risk register (further detail below)

Risk ID3 – Impact reduced based on the data available

Risk ID10 – With the successful sale of the old Falkirk campus is it proposed that this risk be removed

COVID-19 Risk Register

The COVID-19 risk register (appendix 2) has continued to evolve along with the changing practices/procedures being put in place within the College. We are now at a stage where the efficacy of some of the proposed mitigation measures can be assessed and this has led to a reduction in the risk scores.

Risk ID3 – Score reduced owing to College being on track to meet credit targets

Risk ID4 – Score reduced owing to the Covid specific timetable being developed and in place.

Risk ID5 – Score reduced owing to successful implementation of the VPN system to support remote learning and provide a secure connection into College systems

Risk ID6 – Score reduced based upon student application and enrolment data

Risk ID7 – Score reduced as a result of additional investment in laptop resources for issuing to students.

Risk ID8 - Score reduced given the certainty of costs to date with the only ongoing costs are consumables

Risk ID9 – Score reduced owing to the arrangements in place for safe use of campus facilities

Risk ID10 – Score reduced following increases in student achievement levels

As the College continues to move towards resuming operations, these risks and their mitigations will be monitored.

The Strategic Risk Register and COVID-19 risk register will be presented to the full Board of Management at the 22 October meeting.

5. Equalities

Assessment in Place? – Yes ☐ **No** ☒

If No, please explain why – The Strategic Risk Register document does not require equalities impact assessment. Individual risks may result in Equalities assessments being completed for new/revised College policies and procedures.

Please summarise any positive/negative impacts (noting mitigating actions) – Not Applicable

6. Risk

	Likelihood	Impact
Very High		
High		
Medium		
Low	X	X
Very Low		

Please describe any risks associated with this paper and associated mitigating actions – Risk continues to be comprehensively managed and reviewed across the College on an ongoing basis.

Risk Owner – Ken Thomson **Action Owner –** Ken Thomson

7. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes ☐ **No** ☒ **Health and Safety – Yes** ☐ **No** ☒

Paper Author – Stephen Jarvie **SMT Owner –** Ken Thomson

Forth Valley College Strategic Risk Register

Risk Management and Mitigation					Owners			Initial Risk Score			Score After Mitigation				
No	There is a real or perceived risk that…	Potential Consequences	Mitigating Actions	Actions/Progress to Date	Board Committee	SMT Risk Owner	Action Owner	Likelihood	Impact	Risk Score	Likelihood	Impact	Risk Score	Change to score since last meeting	Date Added and Date Score Updated
1	There is insufficient funding from Scottish Government/SFC to support the core activities of the College	- Inability to deliver high quality learning - Inability to react to changing economic and local environment - Inability to maintain College infrastructure - Impact on College performance indicators	- Principal and Chair represented on sector groups to lobby SFC/Scottish Government - Vice Principal Finance and Corporate Affairs member of SFC new funding model group - Business Development strategy to increase commercial income being developed by Director of Business Development	Sept 20 - SMT continue to work on producing a balanced budget for 20/21 which will be presented to the October Board meeting. The Principal is a member of the latest SFC working group reviewing the funding model. SFC are also completing a review of coherent provision and sustainability of the FE/HE sectors. May 20 - first phase of the transformation programme has been implemented however the impact of the Covid 19 pandemic will have a significant impact on the College's financial sustainability. Current SFC guidance is that there is no additional funding to compensate for this with the exception of the UK government's Job retention scheme. A separate risk register linked to the Covid 19 pandemic is being prepared. Nov 19 - Chair of BoM and Principal have meeting scheduled with Karen Watt, SFC on 18 November 2019. August 19 - 5 year FFR currently being prepared based on SFC guidance. Funding gap of £2m has been identified in the medium term. A futures programme is being led by the Principal to address the gap.	B	P	VPFACA	VH	VH	25	VH	VH	25		
2	the ongoing impact of the COVID-19 pandemic will materially impact on the College's delivery and financial sustainability	- Inability to deliver outcome agreement and ongoing financial uncertainty - poor learner experience	- Outlined in specific COVID-19 Risk register	Aug 20 - Please see COVID-19 specific risk register May 20 - COVID19 risk register created	B	P	DPCOO	VH	H	20	H	M	12		Sep-20
3	The student experience fails to meet student expectations	- Reputational risk - Current/Potential students choose another College/Learning provider - Impact on College meeting credit and PI targets	- Listening to Learners - Ensuring relevance of courses through robust curriculum review - Robust evaluation processes at all levels - Student support systems in place and effective - Deliver on Creative Learning and Technologies Strategy	September 20 - FT student retention for 19/20 up by 4% on 18/19: FT FE up by 6%; FT HE up by 4%. Good level of engagement from students through lockdown as indicated by retention figures. Excellent engagement from staff on Covid-19 emergency assessment guidance with very positive feedback received from programme teams on the assessment process and decision tree. Initial indications on 19/20 attainment figures shows a high volume of deferred students; however, work is ongoing to catch up on deferred students. 20/21 offers slightly down on 19/20 but with no major cause for concern and there has been improvement on offers during August. Post Entry survey activity scheduled for w/c 28 September 2020. Updated assessment/verification guidance for 20/21 now released by SQA and sent to all OM/CMs for review. May 20 - Covid-19 update. Assessment guidance released to curriculum teams to support assessment decisions through robust, valid processes and to ensure students' results are reliable. MS Teams digital community set up to support staff in delivering on-line. IQAP group established to verify assessment decisions on risk based approach to ensure students gain the correct results and curriculum teams follow the emergency processes. IQAP process to allow student complaints and appeals to dealt with in a fair and	LSE	P	VPLSE	M	VH	15	M	H	12		Sep-20

4	National Bargaining process will negatively impact on the College	- Unaffordable pay awards - Potential strike action which could impact on the Student experience and meeting commercial contracts - 'No Detriment' restricts options for FVC compared to sector	- Chair and DPCOO represent the College on the Employers Association - Communication with staff, students and other users - Force Majeure clauses in commercial contracts to mitigate impact of strike action	Aug 20 - No further update May 20. We are now at the beginning of new talks with EIS regarding a cost of living pay award until this is resolved the impact on the college is unclear. However, given the current situation funding a cost of living pay award will be a challenge Nov 19 - No further update Aug 19. Following a lengthy negotiation final settlement has been reached with new Terms & Condition in place. The settlement did have an impact on the colleges financial situation however, this has been worked through April 19. This situation regarding EIS dispute continues. No settlement has been agreed and further strike action is planned for the month of May. EIS have also initiated ASOS. WE continue to ensure that where possible services to students have minimum impact Nov 18 - We continue to be actively involved in this process which allows us to keep on track with potential	B	P	DPCOO	H	H	16	H	M	12		
5	The College will fail to deliver the Outcome Agreement	- Reputational damage - Potential clawback of funding and risk of reduction in credits allocated to the College	- Ongoing monitoring of performance against targets by new Leadership Team - Targets cascaded to Directors with accountability	Aug 20 - Substantial effort to move planned learning online, combined with an easing of SFC guidelines has enabled the College to meet its Credit target for Session 2019-20. Work is still ongoing with deferred students in finalising achievement PIs, however retention PIs for Session 2019-20 are up on 2018-19. May 20 - As a direct impact of Covid-19 we have identified there is potential for the College to be short of it's Credit target. Work is ongoing to address the predicted shortfall. Nov 19 - The College met its Credits Activity target. Performance against full time PI targets was disappointing, despite the introduction on in-year tracking. Earlier and more in-depth tracking is being introduced this session. Aug 19 - Comparisons of in-year PI estimates with final outcomes is ongoing. May 19 - Additional monitoring reports have been built, and will be refined through usage. Nov 18 - Additional monitoring reports being built for Department teams to allow granular monitoring of targets.	LSE	P	VPISC	M	VH	15	L	VH	10		
6	The College is adversely impacted by a cyber attack.	- Reputational risk - Impact on learning & teaching - Impact on key services	- Up to date firewall, and cyber protection through Disc - Regular security patching - Full nightly backups and hourly snapshots to minimise disruption in the event of the need to restore data - Up to date anti-virus and malware software - Scanning and monitoring of all external drives - Resilience through additional connections to outside world - Documented and tested business continuity plan	Aug 20 - We have enhanced our security around remote working through the roll-out of VPN software. May 20 - With increased home working due to Covid-19, we are enhancing our security around remote working. Nov 19 - College staff continue to attend security briefings, and Windows security updates are deployed estate-wide as they are received from Microsoft. Aug 19 - College staff are attending regular security briefings. Windows updates are deployed estate-wide as they are received from Microsoft. May 19 - College staff are members of Scottish Government Cyber Catalyst Group, and receive early warnings of any known cyber attacks. Nov 18 - Cyber Essentials accreditation secured, Member of National Cyber Security Information Sharing Partnership	A	P	VPISC	M	VH	15	L	VH	10		

7	the National Job Evaluation Process may impact staff	- Impact on staff morale - Short timescales for completion of submission - Potential financial impact on staff	Driven by National Agreement - Sector wide Process - Follow guidelines from Colleges Scotland	Aug 20 - The process is well underway however no direct outcome has been issued May 20 No further update the process continues Nov 19 - With the exception of staff on maternity leave FVC have now submitted all JE document to Scotland Colleges. A team of analysts have been identified to take this process forward Aug 19 The first part of this process in near completion with only a few post to be evaluated . This is mainly due to post holder either being on maternity leave or having lest the college after the cut of date of 18 September 18. This post will be evaluated by the relevant line manager May 19 - Process now begun with a Project Manager in place to support staff going through the process. Unison involvement is also in place and meeting are planed for key staff to support them in completing the sector wide template to role profiles	HR	DPCOO	DPCOO	H	M	12	M	M	9		
8	Loss of key staff will impact on College operations	- Loss of knowledge, experience and links within the Sector and to employers etc.	- People Strategy - Succession Planning - Talent Management Programme in place - Directors in post	Aug 20 - Consultation process is now complete and redeployment opportunities will be offered May 20 We are currently going through a restructure process which will result in a change to posts within the college. However, we have secure post for all affected staff Nov 19 - There is no further update Aug 19 There is little evidence of staff exiting the college. The second stage of the Peoples Strategy is now underway and the focus is on potential managers of the future. April 19 - The first six months of the People Strategy has proven to be a success. We made the decision to fill vacancies internally where possible to encourage talent to remain within the college Nov 18 - First cohort of staff now on Talent Management programme. Effective TNA in place in all departments. Talent Management programme for first time managers ready to roll out	HR	DPCOO	DPCOO	H	M	12	H	L	8		
9	the sale of the old Falkirk campus is not conclud	- Inability to repay SFC advance - not securing best value for resource	- Amendments to contract currently being drafted and agreed with purchaser	Aug 20- Sale Complete May 20 - Legal negotiations currently underway	B	P	DPCOO	M	H	12			0		Remove

Forth Valley College COVID-19 Risk Register

Risk Management and Mitigation					Owners			Initial Risk Score			Score After Mitigation				
No	**There is a real or perceived risk that…**	**Potential Consequences**	**Mitigating Actions**	**Actions/Progress to Date**	**Board Committee**	**SMT Risk Owner**	**Action Owner**	**Likelihood**	**Impact**	**Risk Score**	**Likelihood**	**Impact**	**Risk Score**	**Change to score since last meeting**	**Date Added and Date Score Updated**
1	Commercial activity levels and contribution to the College will be reduced owing to a) lockdown period, b) college resource being focussed on delivery of core activity and c) businesses reducing non-key CPD to address budget issues	- significant impact on College budgets - current commercially oriented staffing levels may become unsustainable for a period of time	- review of commercial offering to focus on potential future funding streams from SFC and Scot/UK Govs to support recently unemployed workers reskill or companies to implement efficient practices - sector advocation for the importance of continuation of flexible workforce development funding - If recession is worse then further reductions in budget may be needed	Sept 20 - Commercial income for 20/21 forecast to be lower than normal due to social distancing and predicted downturn in the economy. Both modern and foundation apprenticeships have recruited well. Flexible Workforce Development Fund (FWDF) has continued with unspent funding from 19/20 being carried forward into 20/21. May 2020 - first draft commercial budget for 20/21 revised to take account of risk, using data from last economic down turn ~£300,000 reduction, capacity adjusted to allow for social distancing and courses still returning a slight profit on this basis. - Discuss pre apprenticeship offerings with government bodies, managing agents and advertise and recruit for August / September start	B	P	VPFACA	VH	H	20	VH	H	20		
2	the current situation will result in an increase in staff anxiety	- Staff may not be comfortable to return to College when we reopen - an increase in mental health related issues	This is being explored within the SLWG in line with planning out return to operational business . We are also considering Health & Wellbeing for home working	Aug 20 - Safe working guidelines and working from home guidelines have been produced, agreed with both union and are being implemented. A wide range of Mental Health and Wellbeing training has been delivered to staff. A COVID information section has also been added to staff records which allows them to record personal information if they have to self isolate May 2020 - A set of sub groups have been set up to develop clear actions for ensuring a safe working environment	B	P	DPCOO	M	H	12	M	H	12		
3	the College will not be able to deliver on agreed credit targets for 2019/20 and 2020/21 owing to closure and reopening with physical distancing reducing capacity of campuses	- reduction in claimable core funding - failure to reach target levels will jeopardise ESF funded activity (circa £500k per annum) which is additional to core credit levels - limited flex in budgets to account for any shortfall - budget issues may compromise achievement of agreed futures programme for the College	- short life working group to look at safe resource maximisation when campuses re-open to provide clarity on deliverable levels of curriculum under physical distancing - sector engagement with SFC and Scot Gov on attainability of credits targets and criteria for ESF elements - utilisation of UK Gov funding to furlough staff unable to perform duties remotely to protect budgets	Aug 20 - Credit targets for 2019/20 are on track to be met. Discussion with SFC continue in relation to credits for deferred students and the possibility of additional credits in relation to the upskilling and reskilling agenda May 2020 - short life working group established - Sector engaging with SFC and ministers - 100+ staff furloughed	B	P	DPCOO	H	VH	20	L	VH	10		Sep-20
4	Insufficient staff resource to deliver against a model where class sizes are significantly reduced and spanned operating hours are in effect whilst there may also be elevated levels of staff absence (self isolation etc)	- impact on credit delivery - impact on student attainment - industrial relations with unions in relation to potential changes to working practices (hours, recording/streaming of lectures)	- Early and ongoing engagement with unions on what returning to campus operations may look like - forward planning to maximise return from existing resource and to identify gaps	Aug 20 There is now a 'COVID' timetable in place which will ensure that although a reduction of students in college the other students will participate via live streaming. These groups within courses will be 'rotated' so that all student have an opportunity to attend campus. There has been no requirement to span opening hours at this time however this will be reviewed May 2020 - Union membership on short life working group, looking at models for reopening College - Work is ongoing to ensure we can deliver in a different way and one that allows all students access to learning either in college or virtually at the same time - Directors/cm's/managers maintaining contact to ascertain who will be able to come back and factoring this into planning.	B	P	DPCOO	VH	VH	25	M	M	9		Sep-20
5	Increased remote working/learning will lead to increased cyber related risks to College systems	- potential breach (ransomware or data breach) impacting on College ability to operate for periods of time - home based systems utilised by staff and students could introduce malicious software to College devices	- IT are monitoring increased attacks on College network and reacting to these - ensure up to date anti virus and system patching in place on all college systems - IT implementing two factor authentication - Implementation of VPN, with a move away from Remote Desktop	Aug 2020 - Rollout of a VPN is now complete. May 2020 - Rollout of a VPN (Virtual Private Network) to replace Remote Desktop 50% complete. Geo-location enabled to block any attempt to access Remote Desktop from out with the UK. A Remote Desktop 'sin-bin' introduced for anyone using an incorrect password, where all services are suspended for 30 minutes on the	B	P	VPISC	H	H	16	L	H	8		Sep-20

6	Student applicants may be unwilling to come to College whilst the pandemic is still underway	- reduction in student numbers will impact on credits - some classes may become unviable to run with reduced numbers, leading to the College having to cancel classes and lose further credits and impact on students who wanted to attend - may lead to disadvantage to poorer students who have to utilise public transport to travel to College and who are unwilling to do so	- Clear communications for revisions to campus operations once they are in place to all students - alter timetabling where possible to avoid students (and staff) having to access public transport during peak times	Aug 20 - Clear communications, including a student guide on returning to college have been issued to all students both new and returning students The Student Association have been involved in all aspects of this and have supported the college to ensure the correct messages have gone out. A high level of student enrolments, student inductions and student finance arrangements have been carried out on line. Timetables have been revised and issued to all students May 2020 - Short life working group has communications embedded into it's	B	P	DPCOO	M	H	12	L	H	8		Sep-20
7	Students do not have access to IT equipment or access to the internet	- Inability of students to engage in remote learning	- Assess a student's ability to engage in remote learning - Provide IT equipment - Provide connectivity	Aug 2020 - Over 400 laptops were built and issued to students in Session 2019/20. To date over 150 have been returned, approximately 100 are with continuing and progressing students, with the remainder with students who are still completing outstanding work, or are in the process of returning their laptop. A further 350 laptops have been purchased and built in preparation for loaning to students for Session 2020/21, with a further 250 recently ordered through funding made available through SFC to tackle digital poverty.	B	P	VPISC	H	H	16	L	H	8		Sep-20
8	costs associated with implementing physical distancing and additional measures such as increased FM and health and safety related activity will impact on lifecycle maintenance	- while there has been an increase in capital funding for 2020/21 this was already under the anticipated lifecycle levels for the campuses. Allocation of this resource to combat infection will further exacerbate this	- sector engagement with SFC and Scot Gov on the unbudgeted expenditure to operate during a pandemic - review lifecycle maintenance projects to prioritise against available resource	Aug 20 - A budget of £55k was initially agreed to support the additional resource requirements. This has been exceeded and a final budget figure will be provided May 2020 - Work s underway to ensure all resources required for any additional measure required as a result of the current situation are fully captured	B	P	DPCOO	VH	M	15	L	M	6		Sep-20
9	opening campuses during a live pandemic will increase the risk to the health and safety of staff and students	- increased exposure to infection - outbreak in College could lead to closures (singular or repeated)	- implement physical distancing across all areas of College activity (classrooms, circulation spaces and workspaces)	Aug 20 - All arrangements are now in place for a safe return in line with Scottish Government guidelines . The SLWG Leads will continue to meet and review the situation to ensure compliance May 2020 - review begun into assessment of maximum occupancy for College areas based on current social distancing guidance	B	P	DPCOO	H	H	16	M	L	6		Sep-20
10	an increase in blended learning delivery impacts on student attainment	- Reduction in successful course completion can impact on the reputation of the College - Complaints from students to College and awarding bodies regarding quality of learning		Aug 20 - All IT equipment has now been updated and tested for use. A full review of quality arrangements have been completed and are now in place for staff to access. Recent exam results have shown that the blended approach can work for a significant proportion of students. May 2020 - A curriculum and IT sub group linked to the SLWG will develop actions to take this forward	B	P	DPCOO	M	H	12	VL	H	4		Sep-20

Agenda Item 12

Covid-19

Guide for audit and risk committees

AUDIT SCOTLAND

Prepared for public bodies and auditors
August 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- **Audit Scotland** is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
- The **Auditor General** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
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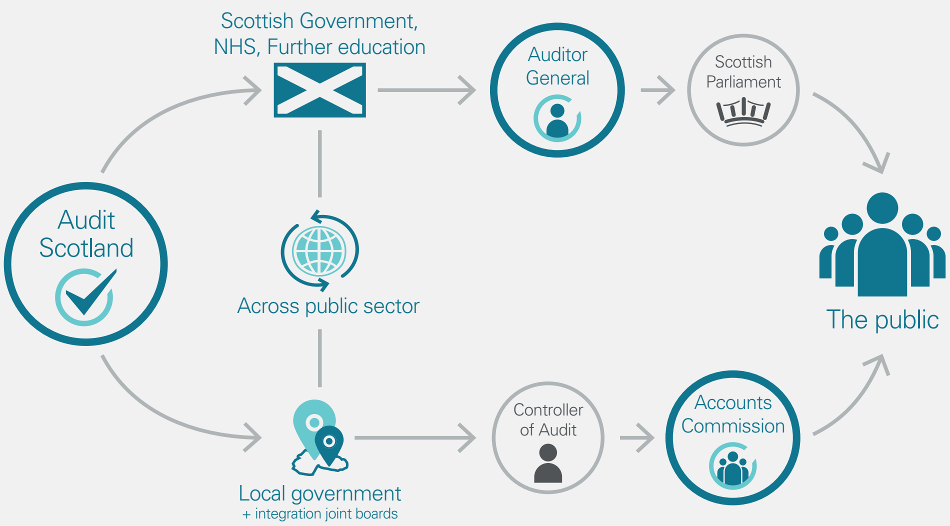

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Introduction

1. Covid-19 has already had a significant impact on every aspect of society in Scotland. It has affected individuals and communities, public services and the economy.

2. The response of public-sector bodies has been strong, and the pandemic has highlighted some of their key strengths, such as agility and partnership working. But Covid-19 has also exacerbated many pre-existing risks and challenges facing public bodies in areas such as financial sustainability and service demand pressures. A difficult road lies ahead as public bodies move from response to recovery and renewal.

3. Audit and risk committees have a crucial role to play in providing effective scrutiny and challenge. They help public bodies focus on important aspects of the business and maintain effective oversight of spending, performance and governance arrangements. As public bodies manage their business during this global pandemic, the role of audit and risk committees becomes even more important.

4. This guide for audit and risk committees draws on our recent experience of auditing public bodies during the pandemic. It also refers to key sources of guidance such as the Scottish Government's Scottish Public Finance Manual and On Board: a guide for members of statutory boards and the Chartered Institute of Public Finance and Accountancy's *Audit Committees: Practical Guidance for Local Authorities and Police*.

Key issues for consideration by audit and risk committees during the Covid-19 pandemic

5. There are a wide range of short, medium and long-term risks and issues emerging from Covid-19 for public bodies to consider. This guide focuses on the short-term challenges facing public bodies in the response phase of the pandemic. During this phase, key areas that audit and risk committees will need to focus on include:

- internal controls and assurance
- financial management and reporting
- governance
- risk management.

6. This guide provides audit and risk committee members with suggested questions to help them effectively scrutinise and challenge in these key areas. Answering the questions in this guide will help audit and risk committees better understand how their organisation is responding to the pandemic and managing both the immediate and longer-term challenges that it creates.

7. Audit and risk committees must assure themselves that they are engaged and well-informed about the changes that are occurring and affecting their organisation due to Covid-19. For example, they should be informed of changes to internal reporting arrangements, and policy and legislative changes and the impact they are likely to have on the organisation. They should also be apprised of any fraud and error risks arising from the response to Covid-19.[1]

[1] *Covid-19: Emerging fraud risks*, Audit Scotland, July 2020.

Internal controls and assurance

8. Public-sector staff are working under extreme pressure as a consequence of the scale and pace of change created by the pandemic and the need to respond rapidly to unfolding events. This may mean that some internal controls are suspended or relaxed. For example, the segregation of duties between colleagues for completing tasks and subsequent checks may not be possible due to unforeseen capacity issues or the lack of availability of more senior or experienced staff. Staff transfer between departments, for example, to new areas such as those responsible for distributing funding to support people and businesses most affected by Covid-19, may also leave some areas under-staffed. Furthermore, inexperienced staff may be working remotely without a full understanding of the required procedures and controls.

9. Internal audit provides independent assurance on governance arrangements, risk management and internal control processes. As the landscape changes, internal audit will have to consider its approach to audit planning and how it continues to deliver its assurance activities while balancing the workload created by new risks emerging from Covid-19.

10. As staff work remotely, there may also be potential security risks such as an increase in cyber-crime. For example, fraudsters may try to access public-sector systems by claiming to be legitimate technical support services or through phishing emails and scams.

11. Exhibit 1 proposes potential questions for audit and risk committee members to consider.

Exhibit 1

Internal controls and assurance – questions to consider

What changes to internal controls have been required due to Covid-19?

- Has internal audit assessed the design, implementation and operational effectiveness of revised internal controls?

What new controls have been established to account for the distribution of any additional funds received?

- Have officers identified any weaknesses in new controls and if so, how are these being addressed?

To what extent has your organisation assessed the impact of working remotely on the control environment and working practices?

Has internal audit reviewed their audit plan and assessed which projects might need to be cancelled, postponed or accelerated as your organisation navigates its way through the pandemic?

How is management supporting internal audit to balance its 'routine' programme of work and that required to respond to Covid-19-related audit work?

What impact has Covid-19 had on the annual reporting and accounting process?

- Has your organisation's timetable for the annual reporting process been considered for 2019/20 and 2020/21? If so, have the timetables been revised and updated accordingly?
- Has the external auditor's annual audit plan been updated to assess and address new risks?

To what extent has your organisation considered work undertaken by other organisations (via professional networks and bodies), or where appropriate, engaged with external experts to inform decision-making around significant areas of change in response to the pandemic?

How have IT services performed during the pandemic?

- To what extent have cyber security controls been considered?

To what extent has management assessed the impact of Covid-19 on overall staff capacity?

- What areas have been identified as being under resourced and how is this being addressed?

What is your organisation doing to support its staff during the pandemic?

- To what extent have workload and working practices been adjusted to allow for the challenges that people may face when working remotely?
- What guidance, advice or signposting has your organisation put in place to support staff wellbeing?

What opportunities and risks have arisen as staff are deployed across departments?

How is your organisation capturing the learning and opportunities that arise from new ways of working?

Financial management and reporting

12. Public bodies face considerable uncertainty during the pandemic and as they plan for the future. Having robust financial management and transparent reporting arrangements in place is critical to ensuring that an organisation can manage its finances and deliver services effectively, identify issues and challenges early and act on them promptly.

13. Financial impacts of the pandemic could include a reduction in income generated from business rates and council tax non-payments as well as a reduction in fees and charges from, for example, leisure, public transport and parking. Organisations may also face increased costs such as higher staff costs to cover the delivery of services. The economic uncertainty and market volatility caused by the pandemic also make it difficult for public bodies to value, for example, property portfolios, inventories and pension schemes.

14. A number of factors will affect how well an organisation can report on and manage its financial position at a time where it is facing significant pressure and challenge. For example, there is likely to be competing pressures on finance staff, significant changes in financial processes and procedures and the introduction of financial systems in new areas, such as those for Covid-19-related government relief, assistance and stimulus packages. Exhibit 2 proposes potential questions for audit and risk committee members to consider.

Exhibit 2
Financial management and reporting – questions to consider

Is financial (and performance) information received in a timely manner, with sufficient detail, to inform the fast-paced changes that are required due to Covid-19?

How is management assessing the financial impact of Covid-19 on income and expenditure?

- What processes or procedures have been put in place to assess, for example, new demands, new expenditure streams, savings from activity foregone and lost income?

What information has been used in determining the value of assets and liabilities?

- To what extent have estimated valuations been impacted by Covid-19, for example, disruption to the revaluation of properties or market volatility impacting on investments?
- What is the likely impact of Covid-19 on pension deficits and what does this mean for your organisation?

What commitments and guarantees have been made to third parties, and how are these being monitored?

- Where relevant, how is your organisation ensuring that the impacts of the pandemic on its arm's-length external organisations (ALEOs) are being appropriately monitored?

What impact has Covid-19 had on savings plans?

- Is your organisation on track to deliver these savings and if not, what plans are your organisation putting in place to help with this?

What impact has Covid-19 had on transformational activity?

- If there has been or will be significant delays to activity or a failure to meet savings targets, what are the financial implications and how is management preparing for this?

Is there sufficient capacity within the finance team to deal with competing pressures, such as preparing annual accounts, at a time when working practices are having to be adapted due to Covid-19?

Governance

15. The pace and scale of change is unprecedented, and changes in governance arrangements are likely to have taken place. This may mean that there has been less opportunity for scrutiny and due diligence as public bodies respond rapidly to the challenges arising from Covid-19. For example, urgent procurement decisions and changes to delegated authority arrangements may have impacted on the level of scrutiny.

16. Governance and accountability arrangements around collaborative working may be increasingly complex but when done effectively, allows for better planning, design and coordination of services. Many aspects of public bodies' responses to the pandemic can only be done in partnership with others.

17. Recent changes to governance arrangements due to Covid-19 may include basic alterations such as documenting authorisation processes through to oversight of the overall running of the business. Exhibit 3 proposes potential questions for audit and risk committee members to consider.

Exhibit 3

Governance – questions to consider

What impact has Covid-19 had on governance arrangements?

- How is your organisation ensuring that effective oversight and scrutiny of key decisions is maintained as it responds rapidly to the challenges it faces during the pandemic?
- Have any significant changes been made to governance arrangements due to the pandemic, for example, suspension of committees or increased use of delegated decision-making powers?
- Where decisions are being made using delegated or emergency powers, how are these being recorded, made public and subjected to scrutiny by the relevant committee(s)?
- Have changes to processes and procedures made in response to Covid-19 been reviewed and documented appropriately to comply with overall governance arrangements?

Are governance arrangements being reviewed regularly to ensure they remain fit for purpose?

Are non-executive directors providing appropriate levels of support, scrutiny and challenge to your organisation as it responds to the current environment and new risks?

What barriers, if any, have affected your organisation's ability to continue to provide services for individuals and communities during the pandemic?

- How have these barriers been overcome?
- What was the impact on service users?

What impact has Covid-19 had on your organisation achieving its stated objectives?

- Does performance reporting highlight any changes on your organisation's ability to meet its objectives as a consequence of Covid-19?

- Has the pandemic caused new risks to achieving your organisation's objectives? If so, how are these being addressed?

What impact has Covid-19 had on collaborative working?

Risk management

18. While public bodies will have risk management processes in place, the likelihood and impact of existing risks and the emergence of new risks will need to be monitored carefully. There may also be a change in the risk appetite during the pandemic to allow for services to operate effectively and respond to issues in a timely manner. Some changes may be significant therefore officers and audit and risk committee members need to consider how sustainable these changes will be in the longer term.

19. Public bodies were already facing risks and challenges around, for example, financial sustainability, outcomes and inequalities. These risks and challenges have become greater due to Covid-19. They are also heightened further because of the uncertainty around the UK's exit from the European Union and increasing budget pressures.

20. Exhibit 4 proposes potential questions for audit and risk committee members to consider.

Exhibit 4
Risk management – questions to consider

Are there new expenditure or procurement streams, or delivery methods arising from Covid-19 that introduce new risk?

- What indicators does management have to support informed decisions on risk and is this data available in real time?
- Is your organisation's risk management strategy up-to-date to include risks associated with Covid-19?
- What risks have emerged that need to be addressed and what protocols are in place to report and analyse emerging risks as the situation evolves?
- Are risks being reported to the relevant committee?

Has your organisation's risk register been updated to reflect new risks arising from Covid-19?

Is there a need for management's risk appetite framework to be reviewed to ensure it is appropriate in this rapidly evolving environment?

- If so, when will the committee be informed of the outcome and any next steps?

How does Covid-19 impact on any financial risks already facing your organisation and how does this affect short, medium and long-term financial plans?

What impact does Covid-19 have on any scenario planning that your organisation has in place for events such as EU withdrawal and increasing budget uncertainty?

Looking ahead

21. This is the second in a series of Covid-19 guides prepared for public bodies and auditors. Our first publication, Covid-19 Emerging fraud risks, sets out a range of fraud risks that may arise due to the pandemic. By drawing on our position as external auditors across the public sector in Scotland, we have used our recent experience to develop these Covid-19 outputs. We will be issuing further guidance to public bodies to support them as they move beyond the response phase of the pandemic into recovery and renewal.

22. We invite feedback on how the role of external audit can further support public bodies as they respond to the challenges Covid-19 presents.

Further reading

- *Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19*, National Audit Office, June 2020.
- Financial scrutiny practice guide, The Chartered Institute of Public Finance and Accountancy, June 2020.
- https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/implications-audit-committees-arising-covid-19
- https://www.iia.org.uk/covid-19-hub/covid-19-guidance/

Covid-19

Guide for audit and risk committees

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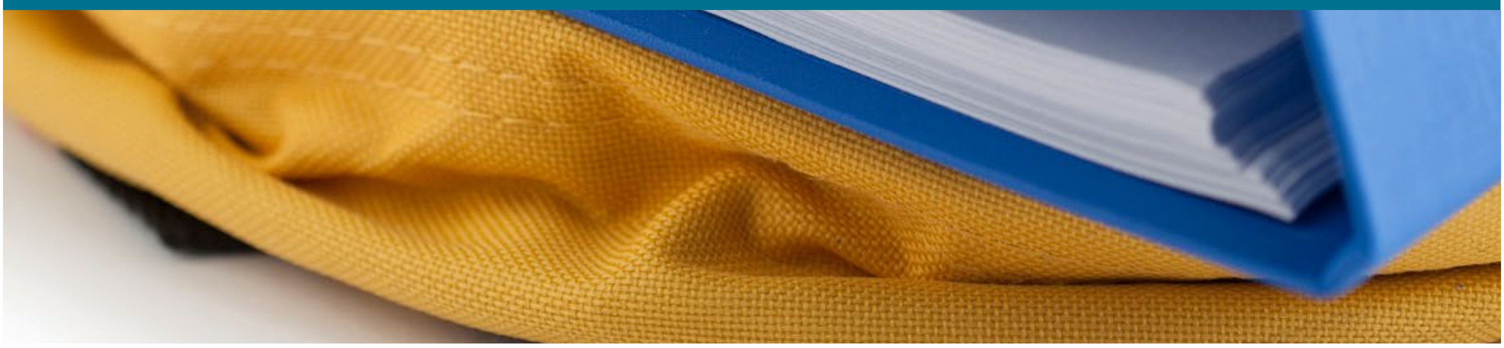
For Information

Scotland's colleges 2019

AUDITOR GENERAL

Prepared by Audit Scotland
June 2019



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- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

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- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

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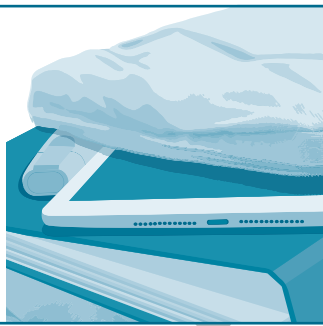
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents



Audit team

The core audit team consisted of: Mark MacPherson, Mark McCabe, Yoshiko Gibo, Angus Brown and Sanya Ahmed, with support from other colleagues and under the direction of Angela Canning.

Links

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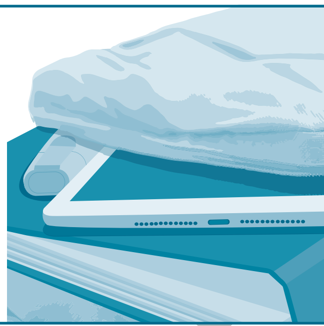
Web link

Key messages



1. The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges. The gap between colleges' income and expenditure is widening and this is forecast to continue, with 12 incorporated colleges forecasting recurring financial deficits by 2022-23.

2. Colleges face increasing cost pressures. The increase in Scottish Government revenue funding for 2019/20 covers only the additional costs of harmonising pay and conditions across the sector (excluding cost of living increases and increases in employers' pension contributions). Current Scottish Government capital funding falls short of the estimated costs of maintaining the college estate. The proportion of non-government income that colleges generate has reduced over time, and cash balances and money held by arm's-length foundations fell.

3. Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over. Colleges are widening access to disabled, ethnic minority and care-experienced students. After several years of increasing learning delivered to students from deprived areas, the proportion of learning delivered to this group fell slightly in 2017-18.

4. There is considerable variation across colleges in terms of student attainment and retention and those going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the Scottish Funding Council's (SFC) target of 75 per cent by 2020-21. Attainment gaps still exist for students from the most deprived areas, students with disabilities and for care-experienced students.

5. There is scope for the SFC to work with individual colleges and their boards to improve financial planning and to achieve greater transparency in the sector's financial position. The SFC can also be more transparent in how it reports colleges' performance against outcome agreements and student satisfaction data. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

Recommendations

Colleges should:

- agree their underlying financial position with the SFC prior to finalising their accounts (paragraph 5)
- improve data collection and response rates for student satisfaction and publish results (paragraphs 52–53)
- use *How good is our college?* effectively to drive improved performance and enhance the quality of service provision (paragraphs 55–57).

College boards and regional bodies should:

- agree medium-term financial plans that set out the mitigating actions to ensure their college's financial sustainability (paragraphs 17–19)
- submit agreed medium-term financial plans to the SFC along with financial forecast returns (FFRs) (paragraphs 17–19).

The SFC should:

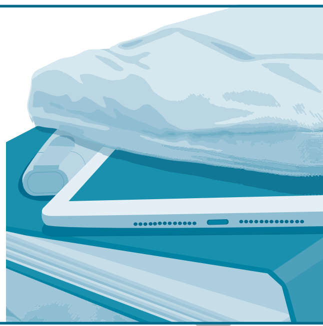
- work with colleges to agree their underlying financial position prior to finalising their accounts (paragraph 5)
- require colleges to submit medium-term financial plans to support FFRs in assessing financial sustainability across the sector (paragraphs 17–19)
- publish college region performance against all outcome agreement measures (paragraph 44)
- publish good-quality student satisfaction data for every college (paragraph 52).

The SFC and Scottish Government should:

- agree and publish a medium-term capital investment strategy that sets out sector-wide priorities (paragraph 24)
- review whether targets for college provision and student outcomes, including for students from deprived areas, remain relevant and realistic, based on current performance trends (paragraph 31) (paragraphs 41–42)
- work with colleges to deliver the necessary improvements in performance to meet agreed outcome agreement targets (paragraph 45).

Part 1

Financial health



Key messages

1 The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges.

2 The Scottish Government has been providing colleges with real-terms increases in revenue funding since 2016/17. The most recent increase for 2019/20 covers only the additional cost of harmonising staff terms and conditions. Colleges also need to fund cost of living pay increases and any unfunded element of increases in employers' pension contributions. The proportion of non-government income, such as education contracts and other commercial income, has reduced. Colleges' ability to access other sources of funding, such as cash and arm's-length foundation (ALF) balances, is also reducing.

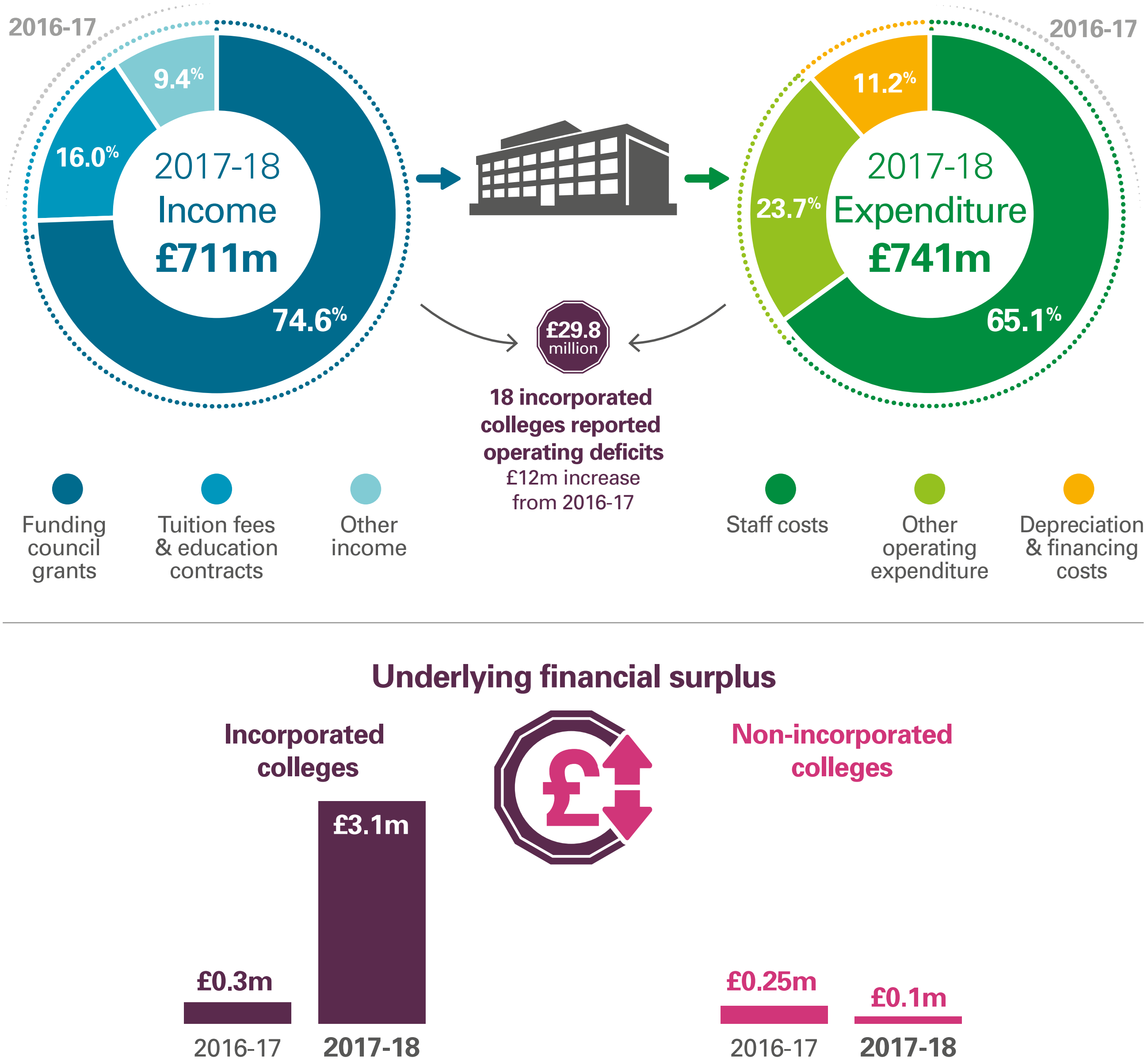
3 The gap between colleges' income and expenditure is widening. Twelve incorporated colleges were forecasting recurring financial deficits by 2022-23. At the time of their annual audits, ten of these were still to determine the specific actions needed to achieve financial sustainability.

4 Scottish Government capital funding falls short of what is needed to meet the estimated costs of maintaining the college estate. The Scottish Government is working with the Scottish Futures Trust and SFC to identify an appropriate revenue funding model for future investment in the college estate.

The underlying financial position for the college sector improved slightly in 2017-18, but the gap between income and expenditure is widening

1. Income remained unchanged across the sector in 2017-18 at £711 million. This represents a 1.9 per cent reduction in real terms from 2016-17. Scottish Government funding (provided through grants from the Scottish Funding Council) increased by 1.0 per cent in real terms. The proportion of income from other sources, such as education contracts and other commercial income, fell, meaning that colleges are increasingly dependent on Scottish Government funding (Exhibit 1, page 7).

Exhibit 1
Colleges have achieved an underlying surplus but the gap between income and expenditure is widening



Source: College accounts/SFC

2. Colleges' expenditure increased by £11.8 million (0.3 per cent in real terms) to £741 million in 2017-18, widening the gap between income and expenditure. As a result, the sector's operating deficit increased to £29.8 million. Eighteen of the 20 incorporated colleges reported operating deficits.

3. Adjusting the operating position for technical accounting factors that are beyond a college's immediate control, such as pensions and net depreciation, helps to provide a clearer picture of a college's short-term financial health. After such adjustments, incorporated colleges reported an underlying surplus of £3.1 million. While the underlying surplus is £2.8 million higher than in 2016-17, it represents a very small percentage of sector expenditure (0.4 per cent).

4. The overall underlying surplus for the six non-incorporated colleges is £0.1 million, equivalent to 0.4 per cent of their expenditure of £25.6 million and less than half the surplus in 2016-17 (£0.25 million).

5. In calculating and reporting their underlying operating positions, colleges continue to interpret the SFC's accounts direction inconsistently. While the differences between colleges' and the SFC's calculations are small overall (around £1.4 million), differences in individual college figures can be significant.

6. As public bodies, colleges are expected to operate with balanced budgets, but they are operating within an increasingly tight financial environment. The underlying positions of individual colleges are shown on (Exhibit 6, page 12), together with other indicators of financial health.

The latest increase in Scottish Government revenue funding is only enough to cover the costs of harmonising staff terms and conditions

7. Scottish Government revenue funding to the sector reduced in the period leading up to college reorganisation. Revenue funding for the sector has increased year-on-year since 2016/17 in real terms, mainly due to the Scottish Government funding the costs of harmonising staff terms and conditions. All of the increase in funding in 2019/20 is to fund these costs (Exhibit 2, page 9).

8. The SFC and Colleges Scotland have calculated the additional cost from harmonising staff terms and conditions at £50 million per annum from 2019-20. This includes £12 million allocated over the next two years to fund the harmonisation of terms and conditions for support staff. Colleges and the Educational Institute of Scotland (EIS) are in dispute over the cost of living pay claim for lecturers, over and above the harmonisation of pay, terms and conditions. This has resulted in several periods of industrial action and they have yet to reach agreement. The additional costs of the settlement will have further implications for colleges' costs and financial sustainability.

9. There is no additional Scottish Government revenue funding to cover other cost increases over this period, such as cost of living increases and increases in employer pension contributions. Scottish ministers have committed to pass on any specific UK funding made available to help meet planned increased employer pension contributions to the Scottish Teachers Superannuation Scheme. There still may be a significant element that remains unfunded for colleges (Exhibit 3, page 9).

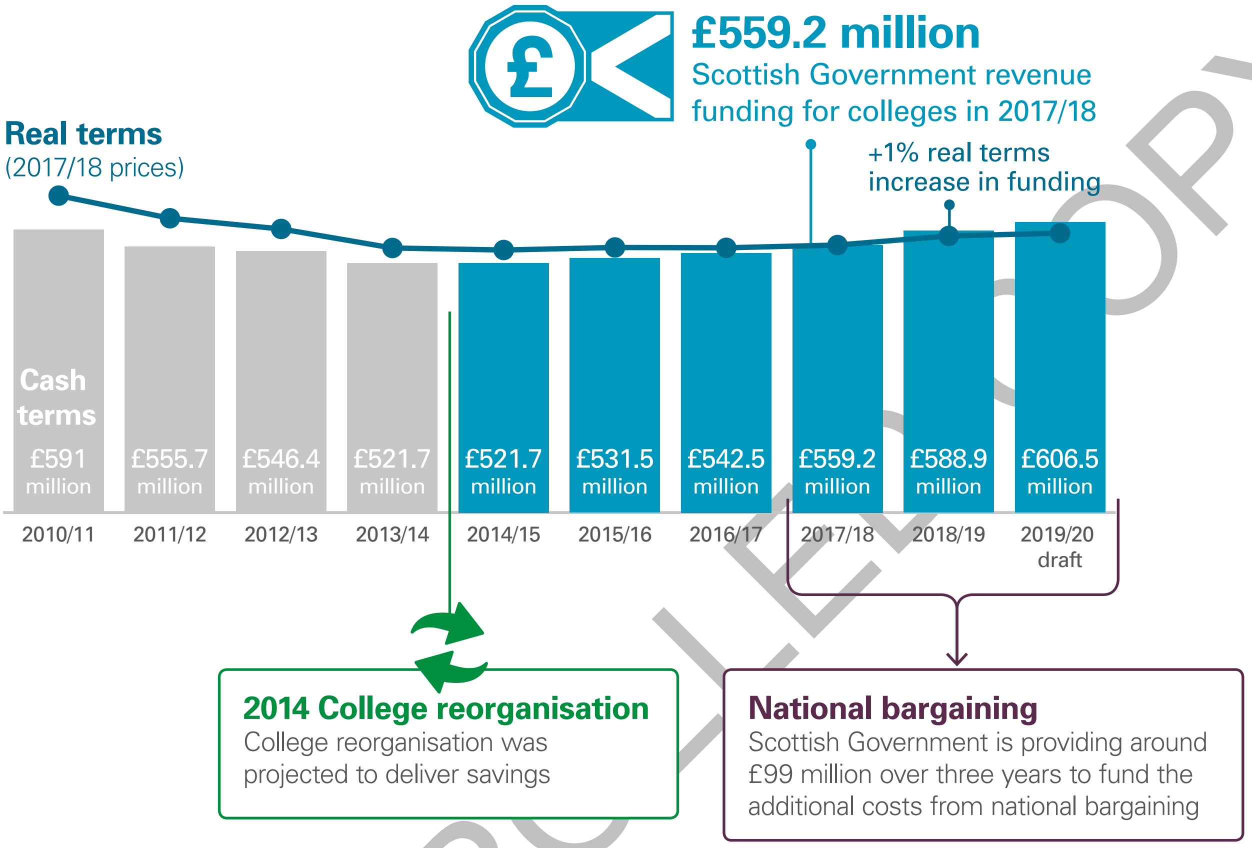
Staffing changes will affect SFC funding for harmonising terms and conditions

10. Total staffing numbers across the sector in 2017-18 remained unchanged, but the staffing profile across the sector has changed.[1] The number of non-teaching staff fell, while the number of teaching staff increased by the same proportion. The proportion of full-time permanent teaching staff with a recognised teaching qualification fell by one percentage point to 87.9 per cent.

11. Small changes at sector level mask noticeable changes within some colleges:

- Twelve incorporated colleges increased their teaching staff numbers. Of these, seven reduced their non-teaching staff.
- Seven incorporated colleges reduced teaching staff. Of these, three increased their non-teaching staff.
- Three incorporated colleges increased both teaching and non-teaching staff numbers, while four reduced both teaching and non-teaching staff.

Exhibit 2
Scottish Government revenue funding for colleges



Source: Scottish Government

Exhibit 3
Colleges staffing 2017-18

Note: Staffing numbers fluctuate depending at the point in the year they are recorded.

Source: College staffing returns to the SFC

12. Current funding allocations for harmonisation of terms and conditions are based on the number of staff in April 2018. The SFC will consider changes in staff numbers when determining future funding allocations.

Some sector-level financial health indicators improved in 2017-18 but the ability to draw on cash balances and ALF income has reduced for most colleges

13. Performance across the sector varied against financial health indicators. The sector's access to cash reduced. Its current net asset/liabilities position improved (ie, the sector's ability to pay its debts), with a reduction in net liabilities. Net assets more than doubled in 2017-18, mainly due to factors outside colleges' direct control. (Exhibit 4).

Exhibit 4
College sector financial health indicators

	2016-17	2017-18	
Cash	£49.2m	£42.1m	Cash held by colleges fell by 16 per cent in 2017-18. Twelve colleges had a reduction in cash, totalling £12.5 million. Eight colleges increased cash balances by almost £5.9 million. Cash balances will fluctuate throughout the year and some cash will already be committed to planned expenditure.
Net assets	£230m	£484m	Comparing the value of the assets an organisation holds against its financial liabilities – its net asset or liabilities position – gives an indication of its financial health. Net assets increased by £254 million, more than doubling the £230 million we reported in 2016-17. But £240 million of the increase was as a result of favourable revaluations of pensions and buildings.
Net current assets (liabilities)	(£33.9m)	(£31.3m)	Current net assets/liabilities are an indication of colleges' ability to pay off current debts. Net liabilities across the sector have reduced. In only five colleges are current assets greater than current liabilities.

Source: Incorporated college 2017-18 accounts

Arm's-length foundations continue to be a reducing source of funds for colleges

14. Fifteen colleges received funding from arm's-length foundations (ALFs) in 2017-18. Around 80 per cent (£8.4 million) of the total sector income from ALFs was provided to Ayrshire, City of Glasgow, Glasgow Clyde and Glasgow Kelvin colleges. ALFs are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges can donate money into ALFs and can apply to ALFs for funding. Colleges have typically used income from ALFs to fund voluntary severance, capital works and investment in equipment and digital infrastructure.

15. Balances held by ALFs are reducing, with colleges planning to apply to use a further £6.25 million of ALF funding in 2018-19. ALF balances vary significantly, with some colleges having little or no scope to access any ALF income. For the remainder of colleges, the ability to apply for income from ALFs is becoming increasingly limited as balances reduce (Exhibit 5).

Exhibit 5
The balances of arm's-length foundations (ALFs) are reducing

Source: College accounts and ALF accounts or SFC – ALF balances not in college accounts

There is significant variation in the financial positions of individual colleges

16. There is significant variation in the financial indicators at individual college level. Taken on their own, each indicator is not a reliable measure of financial health. But, taken together, the indicators provide a broad indication of the extent to which each college is exposed to financial risk (Exhibit 6, page 12).

Exhibit 6
Financial indicators

Colleges	Underlying surplus/deficit	Operating surplus/deficit	Cash	Net assets	Net current assets/liabilities
Ayrshire College	-1.9%	-4.9%	3.3%	78.5%	-8.1%
Borders College	1.6%	-0.6%	19.9%	0.5%	10.5%
City of Glasgow College	0.7%	-2.5%	7.6%	29.7%	-4.8%
Dumfries and Galloway College	-0.5%	-8.1%	5.5%	82.7%	-6.7%
Dundee and Angus College	0.3%	-4.6%	2.7%	77.7%	-6.3%
Edinburgh College	0.6%	-3.4%	1.4%	111.5%	-8.7%
Fife College	0.2%	-6.6%	4.2%	61.3%	-3.1%
Forth Valley College	1.9%	-2.3%	15.6%	-14.0%	1.6%
Glasgow Clyde College	0.3%	-1.0%	5.3%	138.8%	-5.0%
Glasgow Kelvin College	1.5%	1.0%	4.6%	41.9%	-10.3%
Inverness College	1.4%	-5.2%	14.6%	-10.2%	-5.0%
Lews Castle College	1.9%	-5.1%	2.7%	48.0%	-4.9%
Moray College	1.2%	-3.5%	5.9%	90.6%	-5.9%
New College Lanarkshire	0.9%	-4.3%	1.8%	53.9%	-8.7%
North East Scotland College	-2.2%	-8.1%	4.9%	85.0%	5.5%
North Highland College	0.4%	-6.0%	3.0%	22.1%	2.3%
Perth College	0.0%	-5.7%	8.6%	103.0%	-8.4%
South Lanarkshire College	4.0%	0.2%	3.9%	56.0%	-5.5%
West College Scotland	0.0%	-4.7%	6.2%	101.9%	0.0%
West Lothian College	0.9%	-5.0%	3.9%	-16.6%	-4.4%
Scotland	0.4%	-4.0%	5.7%	65.2%	-4.2%

Quartile: Highest 1 2 3 4 Lowest

Notes:
1. Financial indicators are shown as of the proportion of each college's expenditure
2. For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: College accounts

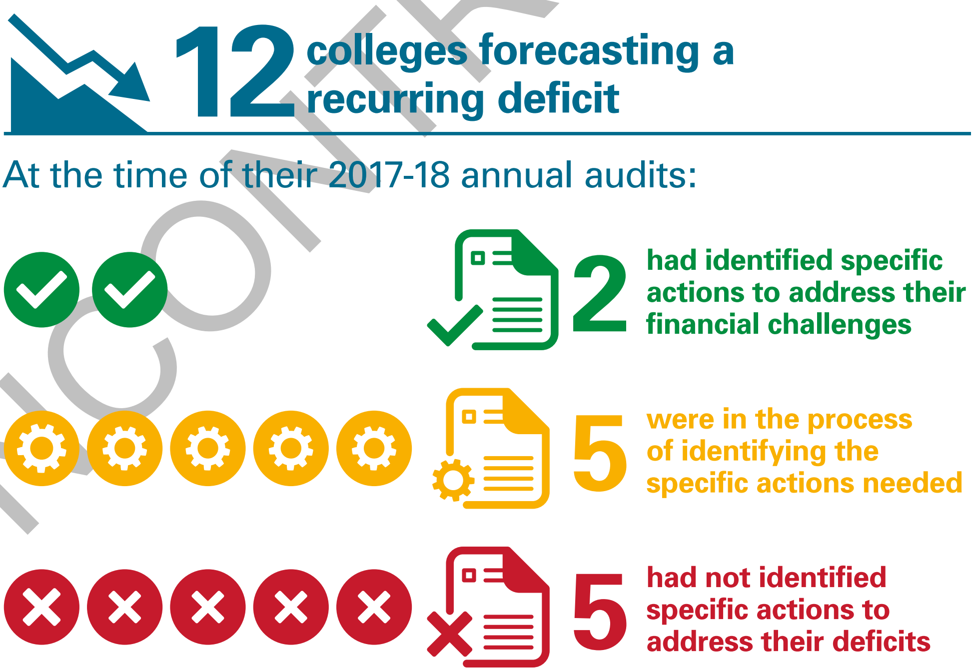
Twelve incorporated colleges are forecasting recurring deficits during the next five years

17. The SFC requires colleges to submit five-year financial forecast returns every year, and provides colleges with common financial planning assumptions to use when preparing their forecasts. Although colleges did apply the SFC's common assumptions, the SFC identified that colleges had not been consistent in compiling their most recent financial forecasts.[2] Colleges had broadly adopted one of two approaches: making forecasts that incorporated actions to address potential deficits; or forecasting their future financial position based on how they currently operate. Twelve colleges are forecasting recurring deficits during the next five years. Of the six non-incorporated colleges, only Orkney College is not projecting a recurring deficit during the next five years.

Only two of the 12 incorporated colleges forecasting recurring deficits had identified specific actions to address their financial challenges

18. At the time of their annual audit, only two of the 12 colleges forecasting a recurring deficit had identified the specific actions needed to address their financial challenges. A further five colleges were in the process of developing specific actions. Of the ten colleges still to determine agreed actions to address recurring deficits, six are forecasting a deficit position by the end of the next academic year: Inverness, North Highland and West Lothian colleges are forecasting deficits from 2018-19; and Forth Valley, Glasgow Clyde and Glasgow Kelvin colleges are forecasting deficits from 2019-20 (Exhibit 7).

Exhibit 7
Status of colleges' responses to forecasted recurring deficits



Source: SFC/colleges' external auditors

19. The SFC asked colleges that are projecting deficits to identify the actions needed to achieve financial sustainability. Additional financial pressures have emerged since colleges prepared their financial forecasts, including reduced capital funding and additional employer pension contributions. Unless funding increases, or colleges change how they operate, these are likely to result in future forecasts showing a worsening financial picture.

Three colleges face particular challenges to their financial sustainability

20. Auditors have highlighted that increasing operating deficits present challenges to financial sustainability in many colleges. Three colleges face particular challenges.

Ayrshire College

Ayrshire College reported an underlying deficit of £1 million in 2017-18 and was forecasting increasing deficits over the next five years, with a cumulative deficit of around £12 million (equivalent to 23 per cent of its current expenditure) by 2022-23. The college faces a number of cost pressures. It has identified annual PFI payments of £1.4 million until 2024-25 as its highest risk.

In February 2019, the SFC agreed the college's two-year financial sustainability plan. The SFC will provide the college with an additional £1.3 million in 2018-19 to fund a voluntary severance scheme and additional revenue funding support of £0.7 million in both 2019-20 and 2020-21.

The college anticipates its severance scheme will contribute to financial sustainability by generating savings of £1.66 million a year, reducing its projected cumulative deficit by 2022-23 to £5 million. Like other colleges, Ayrshire will need to continue to manage its costs, and to develop the necessary actions to balance its operating position from 2021-22 onwards.

New College Lanarkshire

Last year, the Auditor General for Scotland prepared a statutory report on the college, which highlighted the financial challenges facing the college and the potential impact on its longer-term financial sustainability. The college reported an underlying surplus of £0.6 million for 2017-18.

During the year, the SFC provided the college with £1.1 million for voluntary severance and a short-term cash advance of £1.3 million to address cash-flow difficulties.

The Lanarkshire Regional Board has agreed a five-year regional business plan with the SFC. This forecasts an underlying surplus for the college by 2019/20. The college anticipates receiving a further repayable advance of £2.6 million from the SFC in 2018-19, subject to maintaining progress and achieving the milestones in its plan.

To achieve financial sustainability, the college is reducing staffing costs. The SFC will provide £645,000 for the next voluntary severance scheme proposed in the plan. The college also intends to increase non-SFC income and to pursue opportunities for shared services with South Lanarkshire College.

North Highland College

The college reported a small underlying surplus of £0.1 million in 2017-18 but faces several key risks to its financial sustainability.

The college has previously required cash advances from its regional body, the University of the Highlands and Islands (UHI). It is forecasting a cumulative underlying deficit of £2.5 million by 2022-23 (equivalent to around 16 per cent of current costs) and a negative cash-flow position from 2019-20 onwards.

The college has loans of £1.3 million and in 2017-18 relied on waivers from its bank to avoid breaching loan covenants. At the time of the annual audit, the college did not have an agreed financial plan in place to achieve the required savings in both the short and longer term.

The auditor highlighted the need for more detailed interaction between the college and UHI as savings plans are developed. The college has since began a curriculum review, with a view to achieving savings for the 2019-20 budget. However, the college anticipates that it may require financial support from UHI, in the form of cash advances, for 2019-20.

21. Staff costs are the largest area of college expenditure and those colleges that have produced financial plans to address their underlying financial deficits are planning or currently implementing voluntary severance schemes as part of their plans.

Scottish Government capital funding is insufficient to address colleges' maintenance requirements

22. Capital funding is needed for the maintenance and improvement of buildings and investing in digital infrastructure. The Scottish Government provided £76.7 million of capital funding for the sector in 2018/19. Of this, £43.1 million related to existing capital commitments, including Forth Valley College's new campus project, £27 million was allocated for very high-priority backlog maintenance identified in the SFC's estates survey in 2017.[3] The SFC is monitoring whether funding for backlog maintenance has been spent as planned.

23. In 2019/20, capital funding for the sector has fallen to £47.6 million. Of this, £22.7 million is for Forth Valley College's new campus. After other specific capital commitments,[4] the SFC is allocating £21 million to address lifecycle and backlog maintenance needs.[5] Colleges and the SFC have calculated annual lifecycle maintenance costs to be around £22 million, over and above the £77 million high-priority backlog maintenance costs previously identified in the SFC's 2017 estates survey.

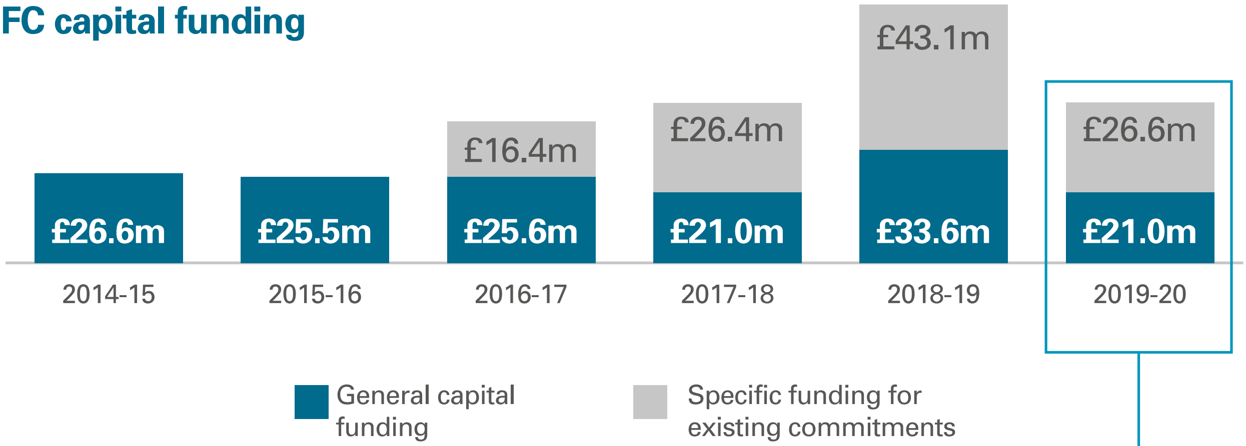
24. Reduced capital spending creates a risk that the cost of urgently needed backlog maintenance increases. This in turn poses a potential risk to some colleges' ability to continue to deliver their core services in a safe environment, and to invest in new digital infrastructure to generate efficiencies and enhance the student experience. The Scottish Government is working with the Scottish Futures Trust and the SFC to identify an appropriate revenue funding model for future investment in the college estate (Exhibit 8, page 16).

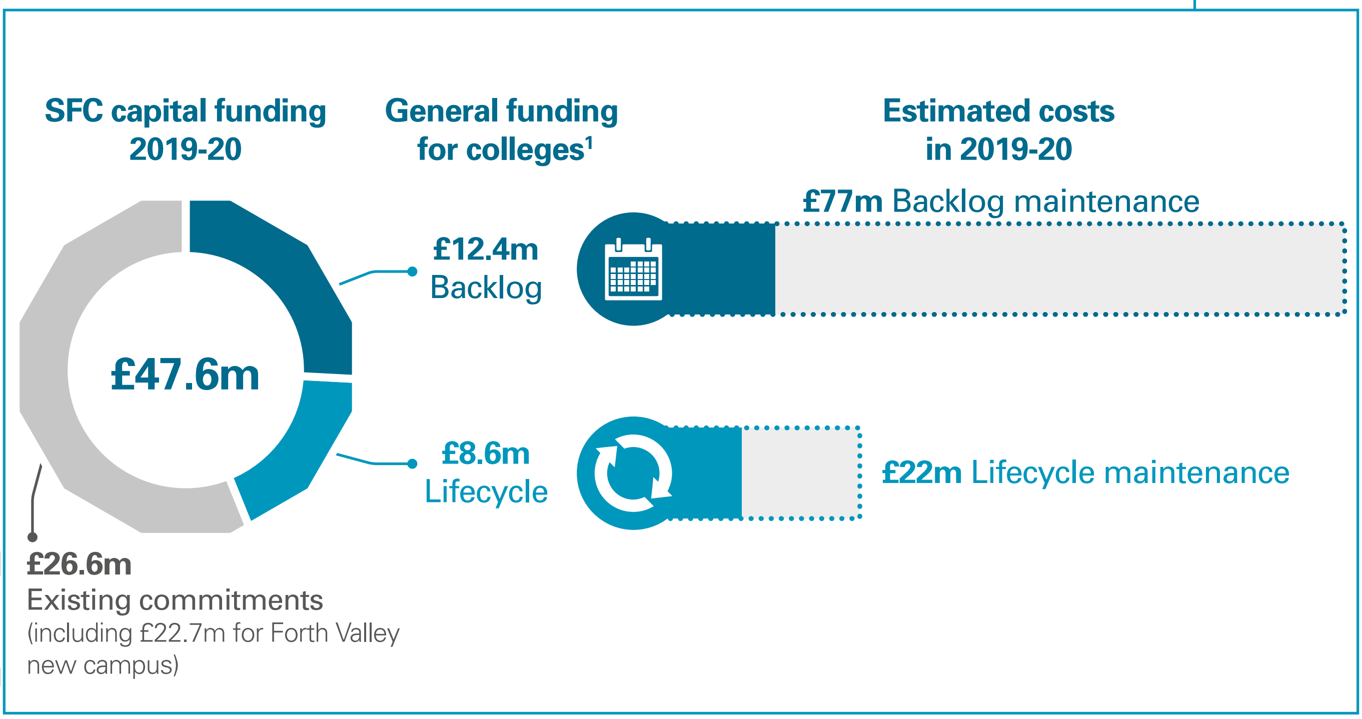
Exhibit 8
Capital funding

£47.6 million
Capital funding in 2019-20

Typically, capital funding is used for the maintenance and improvement of buildings but is becoming increasingly important for investing in and developing digital infrastructure.

SFC capital funding





Note: 1. Excluding Forth Valley

Source: Scottish Government/SFC

The potential implications of the UK's withdrawal from the EU remain unclear

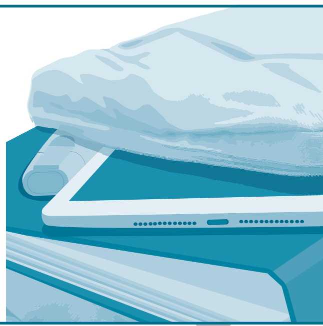
25. The college sector is examining the potential implications surrounding the UK's planned withdrawal from the EU. The main areas that are likely to be affected are students, staff and funding. Data shows that:

- 7.3 per cent of credits are delivered to non-UK EU nationals (2016-17).
- Colleges' representative body, Colleges Scotland, estimates that non-UK EU nationals make up around three per cent of current staff in the sector. There will however be variation across colleges, with potentially the most significant impact being in Edinburgh and Glasgow.
- The SFC is allocating around £13 million to colleges to deliver European Social Fund (ESF) activity in 2019-20. This includes an assumed ESF contribution from the European Commission of around £5 million (around 0.7 per cent of current total sector income), subject to the submission of successful claims to the Scottish Government. College accounts for 2017-18 show that an additional £2.6 million of European income was received across the sector (0.4 per cent of total sector income). This was predominantly for ERASMUS+ placements.[6]

26. The wider potential implications of EU withdrawal remain unclear. While the direct impact on colleges is likely to be relatively small compared to some other parts of the public sector, colleges anticipate that the indirect effects could be much more significant. This includes potential reductions in EU funding that colleges receive through students funded by other organisations.

Part 2

Performance



Key messages

1 Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over.

2 Colleges are widening access to learning for disabled, ethnic minority and care-experienced students but the proportion of learning delivered provided to students from deprived areas fell slightly in 2017-18. Attainment rates for students in most of these categories continue to be below those of the student population overall.

3 Fewer students are completing their courses but a slightly higher proportion of students gaining a qualification are going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the SFC target of 75 per cent by 2020-21.

4 There continues to be considerable variation across colleges in terms of student outcomes. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

Student numbers increased, and the sector exceeded both the Scottish Government's learning target and the SFC's national activity target

27. In return for their funding from the SFC, college regions agree a range of outcomes they aim to deliver each year. Outcome Agreements contain ten measures to assess colleges' progress. Within these ten measures there are national priority measures based around learning credits delivered, the achievement of qualifications (attainment) and successful students going on to positive destinations.

Exhibit 9
Number of students and amount of learning delivered 2017-18

242,485
Students
(an increase of 6,748)

118,684
Full-time equivalent
(FTE) student places (an increase of 1,182) against the Scottish Government's target of 116,269 FTE

1,778,466
Credits delivered
(an increase of 16,434) against the SFC's national target of 1,765,439

Source: SFC

28. Colleges delivered 16,434 more credits than in 2016-17 and exceeded the SFC's national activity target by 0.7 per cent. Five colleges missed their individual target (by a very small percentage in two instances):[7]

- Fife College (by 0.1 per cent)
- New College Lanarkshire College (by 0.2 per cent)
- North East Scotland College (by 1.4 per cent)
- Lews Castle College (by 4.7 per cent)
- Orkney College (by 4.5 per cent).

29. Where regions miss their credit target, the SFC – or the regional body, in a multi-college region – can decide to recover funding. Where the SFC or regional body is aware that a college may miss its target, it can look to redistribute both the activity and the funding to another college or region.

30. UHI is committed to providing access to learning across the region, and to avoid centralising delivery in urban areas. Where colleges in the Highlands and Islands region have not met their targets, UHI is working closely with the colleges to understand, support them and, where necessary, review targets to reflect circumstances. For example, Lews Castle College faces particular challenges due to a declining population in the Outer Hebrides, and UHI is working with the college to assess the effects of this change, and to support the college to adjust its focus to deliver a financially sustainable operating model.

31. Colleges also exceeded the Scottish Government's target of delivering 116,269 FTE places[8], delivering 118,684 FTE places, an increase of 1,182 (one per cent) on 2016-17 **(Exhibit 9)**. The Scottish Government's target has remained constant since 2012-13 though the context in which colleges operate has been changing:

- The young Scottish population has been reducing and is projected to reduce further over the next few years. This is resulting in fewer young students (16-24) at college, and more school-aged and older students.

- The Scottish Government continues to promote widening access to further and higher education. Its aim is for 20 per cent of students entering university to be from the 20 per cent most deprived areas by 2030. While colleges play an important role in supporting a learner's whole journey, this may reduce the number of students that will consider studying at college in future.

Over the past three years, colleges have been providing fewer credits to students aged 16-24 and more to students aged 25 and over

32. In October 2017, the Minister for Further Education, Higher Education and Science confirmed that colleges no longer needed to prioritise full-time education for 16-24 year olds.[9] It is clear that college provision was changing before this announcement. Between 2014-15 and 2017-18, the number of students aged 16-24 fell by 6,887 (or by six per cent). There was a corresponding increase in the number of students aged 25 and over by 6,664 (or by seven per cent). Over the same period, the proportion of learning credits delivered by colleges shifted from students aged 16-24 to students aged 25 and over by four percentage points (Exhibit 10, page 21).

33. Between 2014-15 and 2017-18, there was an increase of 86 per cent (15,815) in the number of school pupils under 16 years of age attending college. Students aged under 16 now make up an additional six per cent of the student population compared to 2014-15. Despite this, credits delivered to under 16 years old have remained very small at only around three per cent. Under the Scottish Government's Developing the Young Workforce programmes, colleges work closely with schools and councils, offering more vocational courses to school pupils. Most courses will not be graded but aim to expand pupils' curriculum choices and help them develop a career path. In 2017-18, all colleges except Newbattle Abbey College delivered credits to students under 16 years of age.[10]

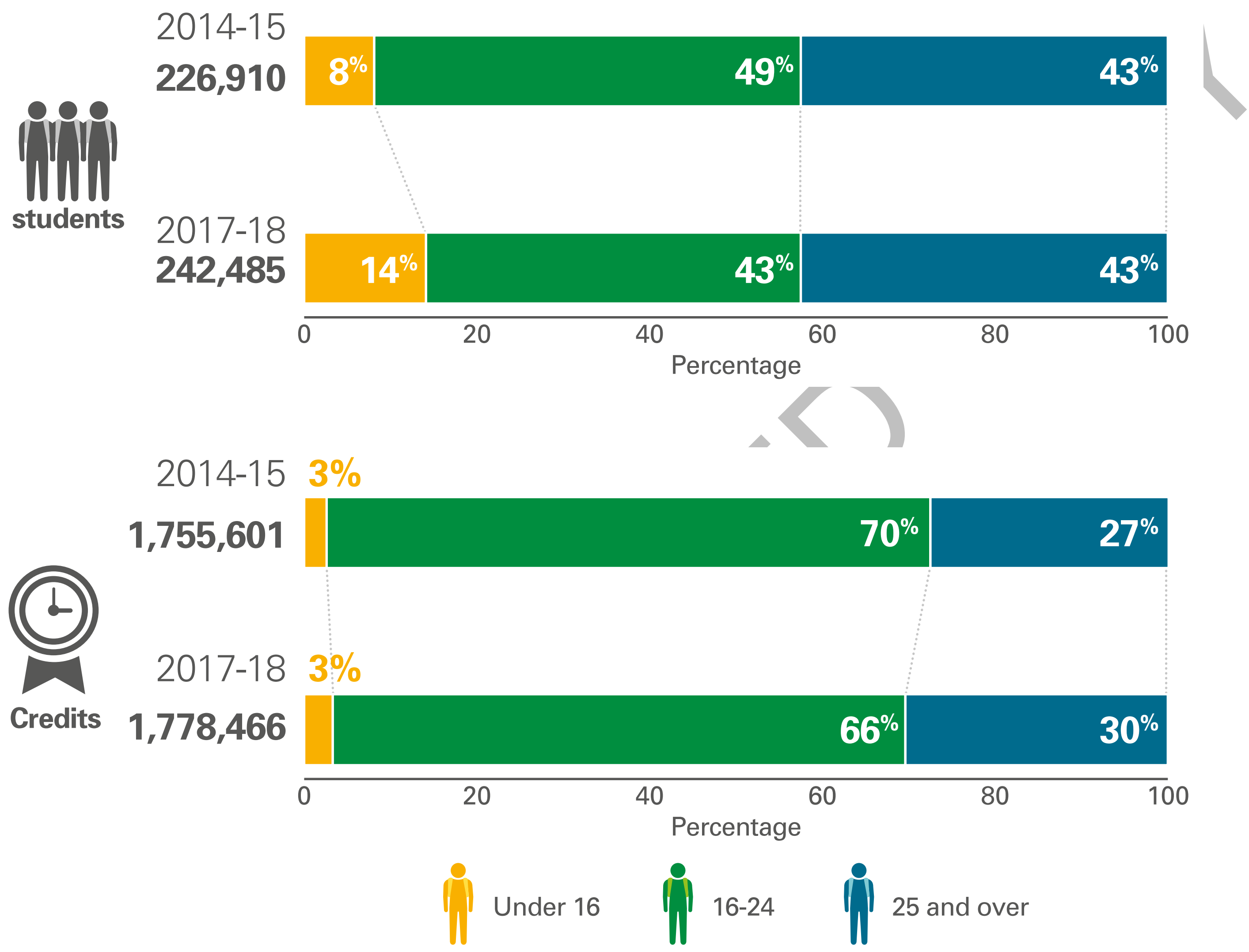
More change is needed to achieve gender balance across important subject areas

34. Female students represent 52 per cent of the student population (125,899) and males 48 per cent (115,945).[11] The number of female students increased by more than the number of male students in 2017-18 (increasing the proportion from 51 per cent last year).

35. In 2016, the SFC committed to increasing the minority gender share in the most imbalanced subjects.[12] Its aim is for the gender balance of students enrolling on important subject areas to be no greater than 75:25 per cent by 2030. Progress towards addressing the long-standing gender imbalances has been limited and will require a concerted effort from schools, colleges and wider society in making sustainable change (Exhibit 11, page 22).

Exhibit 10

Change in the number of students and learning credits delivered across the sector over the past three years



Note: The proportion of credits for 2017-18 doesn't add up to 100 per cent due to rounding.

Source: SFC

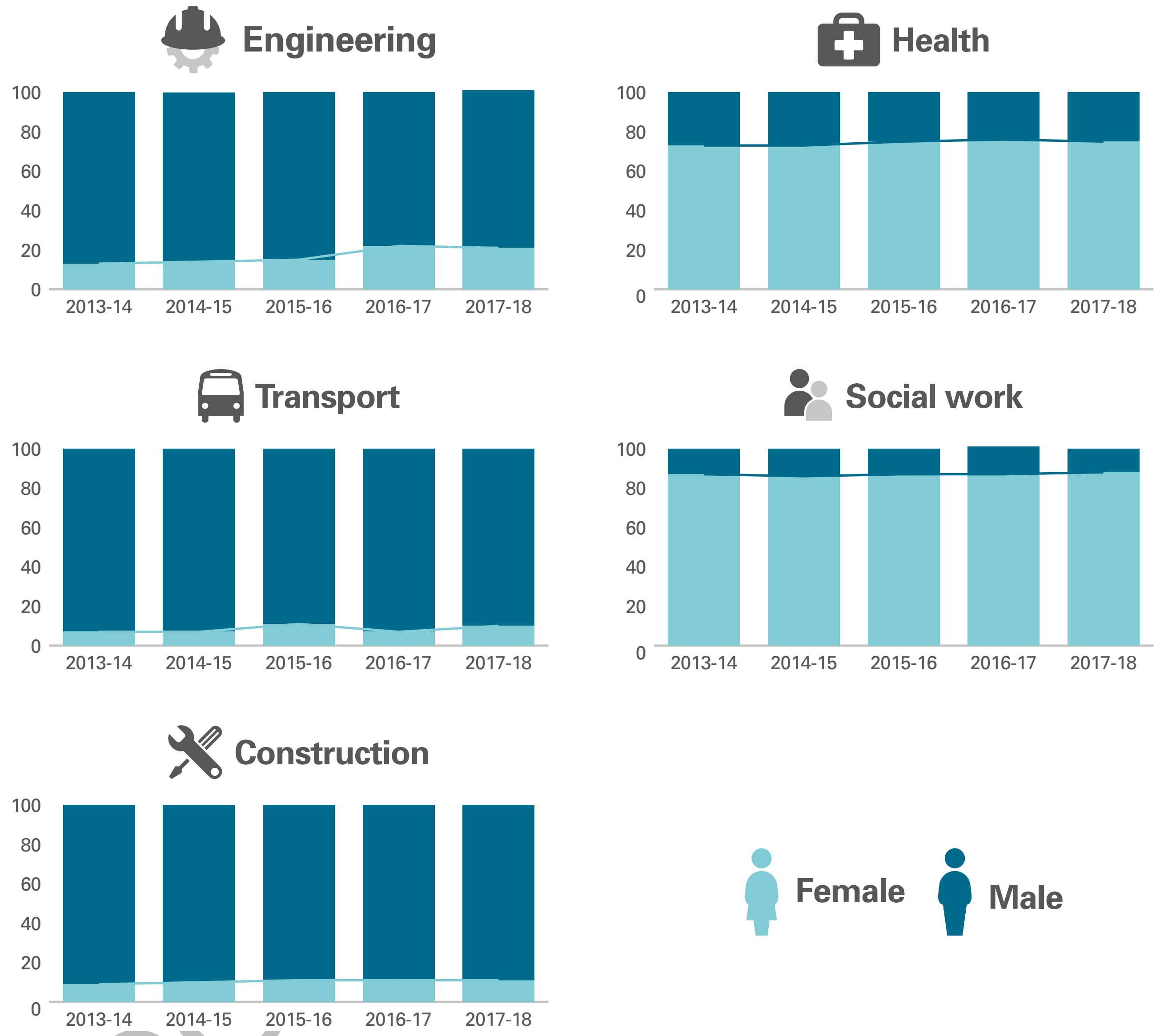
Eighteen college boards have more men than women

36. In February 2019, 246 board members across the sector were men (57 per cent of the total members) and 187 were women (43 per cent of the total members). The number of men increased by 12, while the number of women decreased by four.

37. Four college boards have more women members than men and five have an equal gender split. Orkney College Board has the most uneven gender balance with 19 men and three women.

38. The Gender Representation on Public Boards (Scotland) Act 2018 requires 50 per cent of non-executive members on public boards to be women by 2022. The gender balance of college boards is not entirely under the control of colleges as some members are elected to their position.

Exhibit 11
Proportion of students on each course by gender (headcount)



Source: SFC

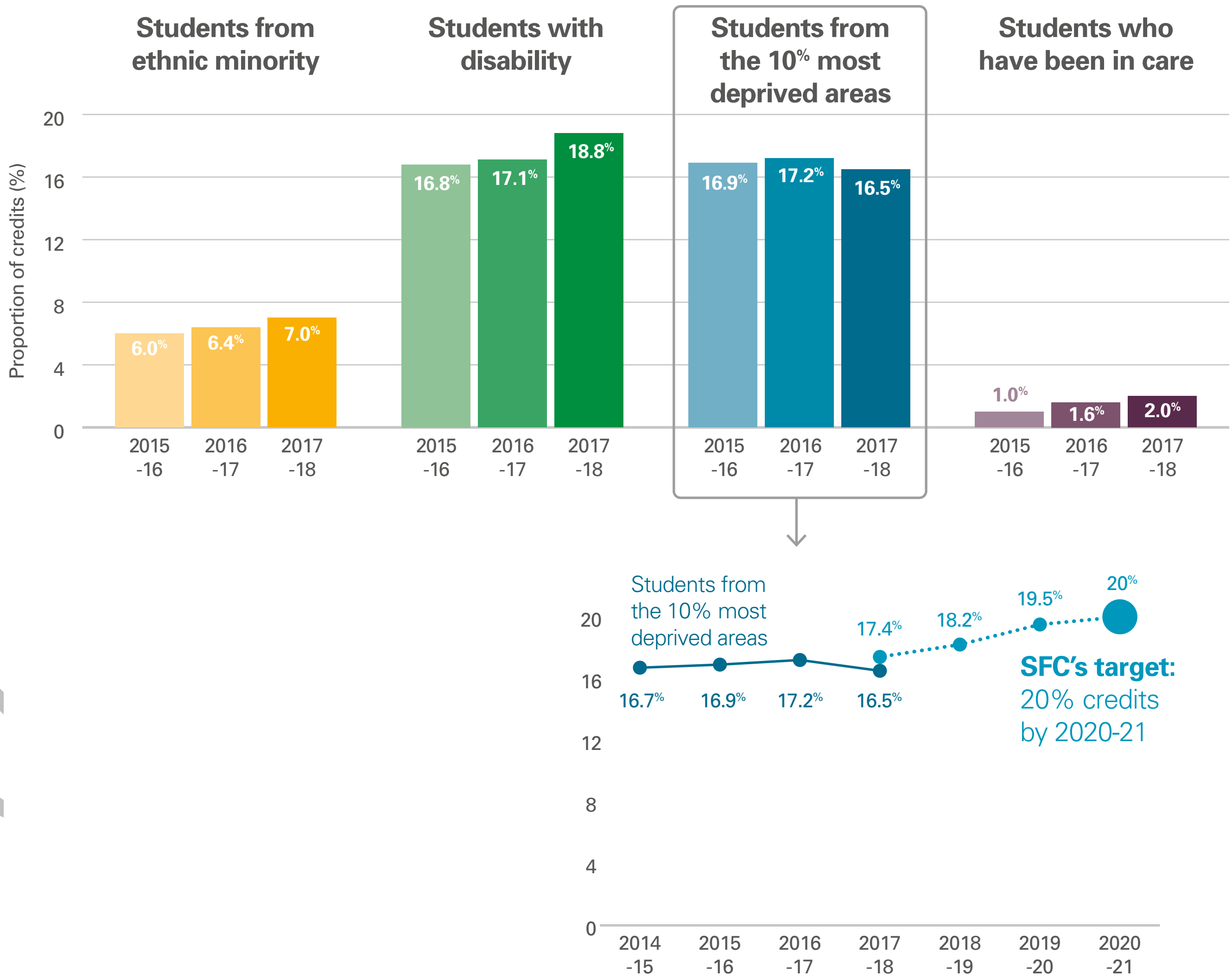
Colleges are widening access to students from a range of backgrounds, but are not meeting targets for students from the most deprived areas

39. Colleges are committed to widening access to learning for all, particularly those who may have found it more difficult to enter further and/or higher education. Across the sector, the proportion of credits colleges deliver to students from an ethnic minority, who have been in care or who have disabilities has increased in recent years.[13]

40. The proportion of credits that colleges deliver to students from the ten per cent most deprived areas had also been increasing, but this trend reversed in 2017-18.[14] The proportion of credits delivered to these students, at 16.5 per cent, was below the SFC's national target of 17.4 per cent.[15] The reasons for this decrease are likely to be complex. For example, the trend is for school pupils to stay on longer at school. Also, in line with the Scottish Government's aim of widening access to higher education, there has been an increase in the proportion of students from deprived areas going to university. Increasing the proportion of credits to students from the most deprived areas will require a coordinated effort from schools, colleges, universities and other relevant stakeholders (Exhibit 12).

41. Based on recent trends, the SFC's target of delivering 20 per cent of credits to students from the ten per cent most deprived areas by 2020-21 looks difficult to achieve.

Exhibit 12
Proportions of credits delivered to students from selected groups



Source: SFC

Exhibit 13

National performance summary, 2017-18

The proportion of students completing their courses is falling, but the proportion of full-time students going on to positive destinations is improving.

Further education	Attainment rates	Retention rates	Positive destinations	Satisfaction
Full-time	66.1 ↑ (0.8%)	74.9 ⇄ (0.0%)	86.0 ↑ (1.9%)	93.1 ↑ (0.3%)
Part-time	78.2 ↑ (1.1%)	89.8 ↓ (0.2%)	–	–
Higher education				
Full-time	71.3 ↓ (0.3%)	81.6 ↓ (1.2%)	81.6 ↑ (1.4%)	83.2 ↓ (4.2%)
Part-time	80.4 ↑ (1.8%)	91.6 ↓ (0.3%)	–	–

(%) – Percentage change from the previous year

Note: The latest positive destinations data available is for 2016-17. Percentage change is from 2015-16.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; and *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018

Student attainment has remained relatively static in recent years and further work is required to address the attainment gap

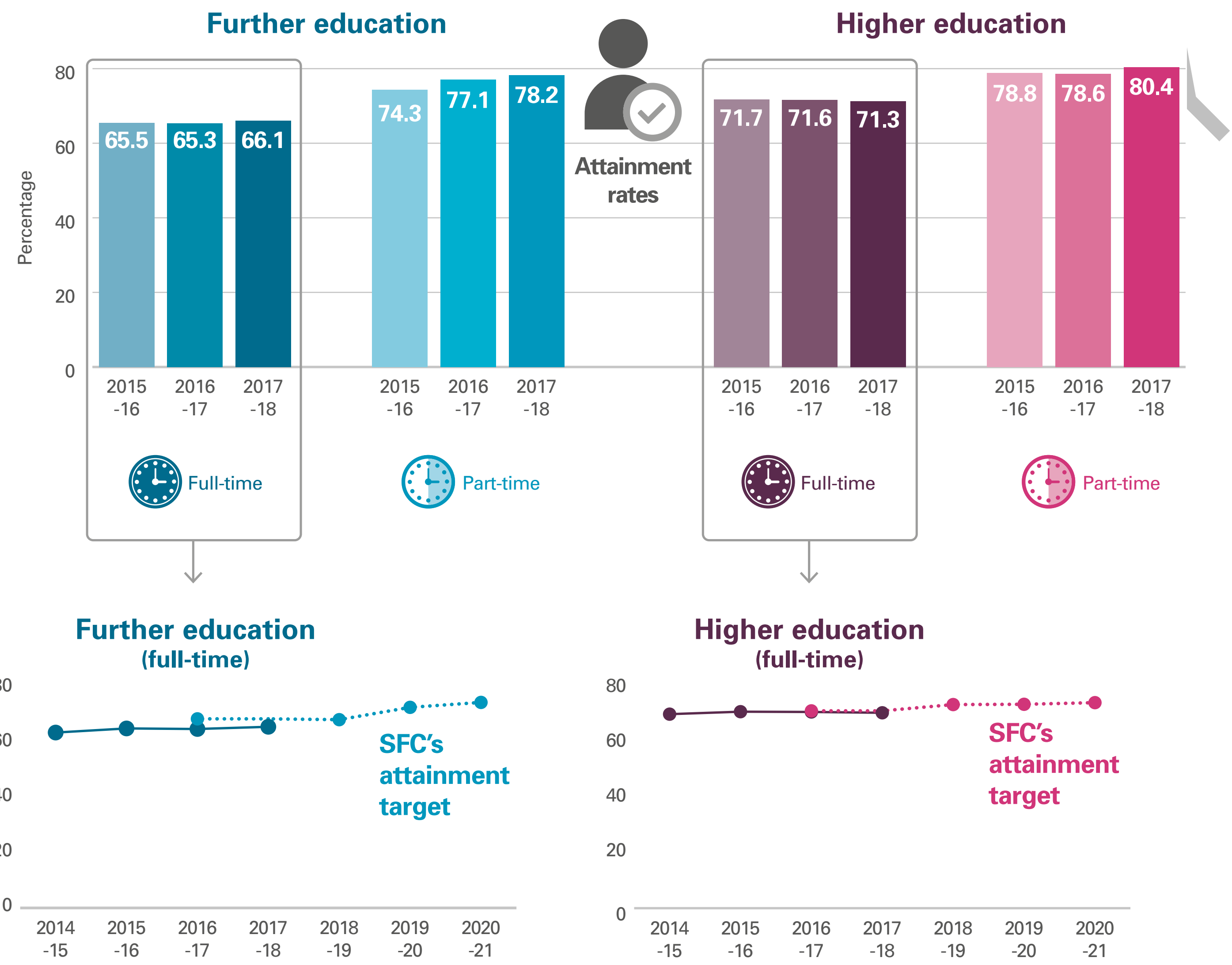
42. The SFC aims to improve attainment rates (the proportion of students completing their course successfully) in full-time further education and higher education to 75 per cent by 2020-21. The average attainment rate for full-time further education improved in 2017-18. In contrast, the average attainment rate in full-time higher education fell slightly. Both remain below the SFC's long-term target, with a significant improvement needed in further education over the next three years. The SFC has set intermediate national attainment targets for full-time students, although it did not set a target for 2017-18. It does not set national targets for part-time students (Exhibit 14, page 25).

Only two regions met all of their agreed overall attainment targets

43. There is wide variation in regional performance against attainment targets (Exhibit 15, page 26):

- West College Scotland region met all four targets. Highlands and Islands region met both targets for further education.
- Two regions missed all four targets (Dumfries and Galloway and North East Scotland colleges).

Exhibit 14
Attainment rates



Source: SFC

44. The SFC does not report the performance of college regions against regionally agreed attainment targets in its Summary of Progress and Ambitions report.[16]

45. In 2018-19, the SFC plans to improve its use of Outcome Agreements to achieve its desired outcomes for learners, for skills development and ultimately for inclusive economic growth in Scotland. This includes agreeing more ambitious targets with college regions to deliver Scottish Government priorities. Based on performance to date, some existing targets will be very challenging for colleges. It is important for the SFC and colleges to be clear on what will be needed to deliver the more ambitious targets.

Exhibit 15
Attainment rates: progress towards outcome agreement targets

	Attainment target met in 2017-18		
Further education	No of college regions providing this type of study[1]	No of college regions	Percentage
Full-time	15	6	40%
Part-time	13	9	69%
Higher education			
Full-time	13	2	15%
Part-time	11	5	45%

Note: 1. Total numbers are based on 13 college regions plus SRUC and Newbattle Abbey College, with the exceptions being: Part-time further and higher education: Ayrshire and Newbattle Abbey colleges did not set 2017-18 targets for these measures in their Outcome Agreement; and Higher education: College outcome agreement measures are not applicable to Highlands and Islands region or SRUC at this level.

Source: SFC

More work is required to close the attainment gap for certain groups of students

46. Students from an ethnic minority, on average, achieve better results than the overall student population, but more work is required to close the attainment gap for the rest of the identified student groups.[17] Students who have been in care have the lowest attainment rates, and were the only group where attainment decreased in 2017-18 (Exhibit 16, page 27).

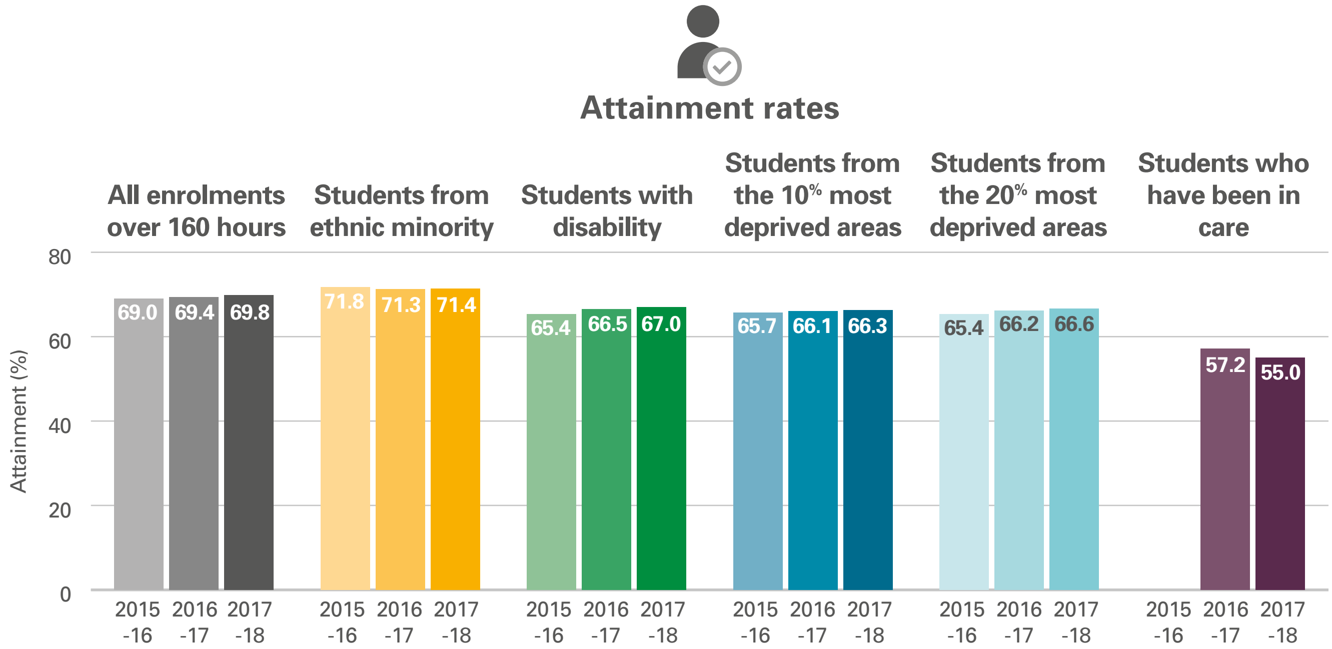
47. The SFC is committed to raising the attainment rates for students from the most deprived areas to achieve overall attainment rates of 75 per cent by 2027-28.[18] In *Scotland's colleges 2018*, we reported that the attainment gap between students from the least and most deprived areas had increased between 2011-12 and 2016-17.

48. Last year, we reported that the attainment gap in 2016-17 increased between those students from the least and most deprived areas. In 2017-18, the attainment gap for those in further education closed slightly, from 7.4 to 6.5 percentage points (69.7 per cent compared to 63.2 per cent). The attainment gap for those in higher education was 7.7 percentage points, the same as in 2016-17 (74.4 per cent compared to 66.7 per cent).

Fewer students completed their course in 2017-18

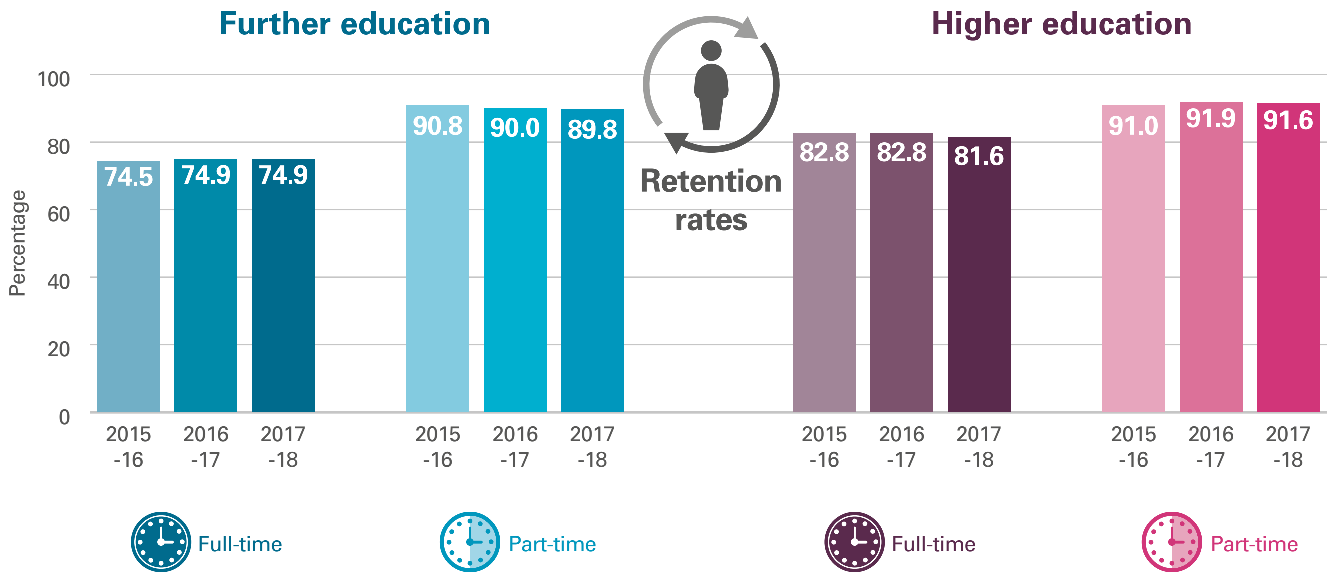
49. Challenges still exist in improving student retention (the proportion of students completing their course, either successfully or partially). The proportion of full-time further education students that completed their course remained unchanged in 2017-18 but the proportions fell for all other types of study (Exhibit 17, page 27).

Exhibit 16
Attainment on courses over 160 hours for students from selected groups



Source: SFC

Exhibit 17
Proportion of students completing their course



Source: SFC

50. Since 2017, the Scottish Government has been running a College Improvement Project (CIP) to raise attainment and retention. It has worked with five colleges through the CIP, trying to identify what improvement can be shared across the sector.[19] The project is scheduled to finish in 2019. While it is too early to assess the impact of the project, more work is required to improve retention. The Scottish Government plans to monitor changes in retention as improvement actions are scaled up and spread to different courses within the colleges and across the sector.

A greater proportion of students who qualify are going on to positive destinations

51. Latest data (covering 2016-17) shows that 95 per cent of full-time student qualifiers with destinations confirmed entered a positive destination, such as employment or continued education (2015-16, 94.9 per cent).[20] Of all qualifiers, 84.5 per cent moved into a positive destination (2015-16, 82.7 per cent). Around two-thirds of all qualifiers went on to further study or training (up by one percentage point from 2015-16). 17.7 per cent of all qualifiers entered work (up by 0.7 percentage point).

The SFC does not publish college-level student satisfaction data

52. Student satisfaction is a performance measure in college Outcome Agreements. For 2017-18, the SFC reported student satisfaction for the sector, but only using data from those colleges that received at least a 50 per cent response rate to their survey (15 of 26 colleges for full-time further education and five of 15 colleges for full-time higher education). It does not publish student satisfaction data for individual colleges or results for part-time and distance or flexible learning students. Publishing good-quality information on student satisfaction for individual colleges would allow students, and potential students, to determine whether a college provides a good experience for students. It also means that colleges can be effectively held to account by other stakeholders.

53. The SFC has been working with the college sector to conduct the Student Satisfaction and Engagement Survey (SSES) since 2015-16. However, over the past three years, response rates to the SSES have varied noticeably across colleges and the SFC does not yet believe that all colleges are conducting the survey in a way that allows either it or individual colleges to place reliance on the survey results. The SFC held an event for colleges in February 2019 to explore ways to improve response rates.

College performance varies widely for student outcomes

54. Taken together indicators on student attainment, retention, destinations and satisfaction provide a broad indication of a college's performance. There was significant variation in performance across colleges; the proportion of students from deprived areas can influence performance, but it is clearly not the only factor (Exhibit 18, page 29).

Exhibit 18
Performance indicators for full-time further education in colleges

Colleges	% credits for FT	Attainment rates	Retention rates	Positive destinations	Satisfaction	College's self-evaluation for 'Outcome and Impact'
Glasgow Kelvin College	45.5	60.2 ↓	69.0 ↓	82.9 ↑	-	Good
West College Scotland	58.5	69.2 ↑	78.1 ↑	80.6 ↓	-	Good
Glasgow Clyde College	67.1	66.1 ↑	74.9 ↑	82.8 ↑	96.7 ↑	Good
Ayrshire College	74.4	66.9 ⇄	73.9 ↓	82.6 ↓	-	Good
City of Glasgow College	58.9	67.9 ↓	76.3 ↓	91.2 ↑	84.5 ↓	Very Good
New College Lanarkshire	75.4	61.4 ↑	68.3 ↑	89.9 ↑	89.0 ↑	Satisfactory
Dundee and Angus College	70.0	75.4 ↑	81.4 ↑	81.7 ↑	95.4 ↑	Very Good
Fife College	61.8	59.1 ↑	73.4 ↑	71.7 ↑	91.9 ↑	Satisfactory
South Lanarkshire College	74.5	69.7 ↓	76.2 ↑	89.1 ↓	98.5 ↑	Very Good
West Lothian College	67.9	65.5 ↑	75.3 ↑	89.7 ↑	-	Good
Forth Valley College	51.8	71.4 ↓	77.2 ↓	75.6 ↓	95.1 ↓	Very Good
Edinburgh College	62.9	60.7 ↓	70.6 ↓	85.9 ↑	-	Good
Newbattle Abbey College	100.0	52.1 ↓	69.9 ↓	81.3 ↑	100 ↑	Good
Dumfries and Galloway College	70.6	59.6 ↓	70.6 ↑	88.3 ↑	-	Satisfactory
Perth College	78.4	70.0 ↑	77.2 ↓	85.2 ↑	96.2 ↑	Good
Borders College	78.0	68.7 ↑	77.1 ↑	86.9 ↓	-	Very Good
SRUC Land based	63.9	68.3 ↓	82.3 ↓	87.8 ↓	-	-
North Highland College	55.7	71.8 ↑	83.2 ↑	90.0 ↑	-	Very Good
Argyll College	47.4	76.0 ↑	82.0 ↑	80.9 ↓	94.3 ↑	Very Good
West Highland College	48.1	69.8 ↓	77.8 ↓	87.4 ↑	100 ↑	Very Good
Inverness College	69.5	70.6 ↑	77.7 ↑	87.3 ↓	94.7 ↑	Very Good
North East Scotland College	72.6	66.6 ↑	77.0 ↑	87.2 ↓	94.0 ↑	Good
Lews Castle College	46.5	60.8 ↓	71.6 ↓	90.3 ↑	100 ↑	Satisfactory
Moray College	74.2	69.0 ↑	75.5 ↑	84.2 ↑	94.0 ↑	Good
Orkney College	33.1	75.0 ↓	80.3 ↓	84.3 ↓	-	Very Good
Shetland College of Further Education	32.0	77.8 ↓	85.6 ↑	97.2 ↑	-	Very Good
Number of colleges where performance increased in 2017-18 ↑		13	15	16	13	
Proportion of total number of colleges %		50%	58%	62%	87%	

Quartile: Highest 1 2 3 4 Lowest

Notes:
1. Colleges are listed according to the proportion of students from the most deprived areas (Glasgow Kelvin College having the highest proportion).
2. Percentage point changes are from 2016-17 (For leaver's destination data, from 2015-16. See Note 3).
3. The latest leaver's destination data available is for 2016-17. The figures are across further and higher education study. College-level figures published are not broken down by the two.
4. The overall student satisfaction rates are included only for colleges with a response rate of 50 per cent or more, in line with the SFC publication.
5. For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018; Colleges' self-evaluation reports, 2019; and SFC's Infact database

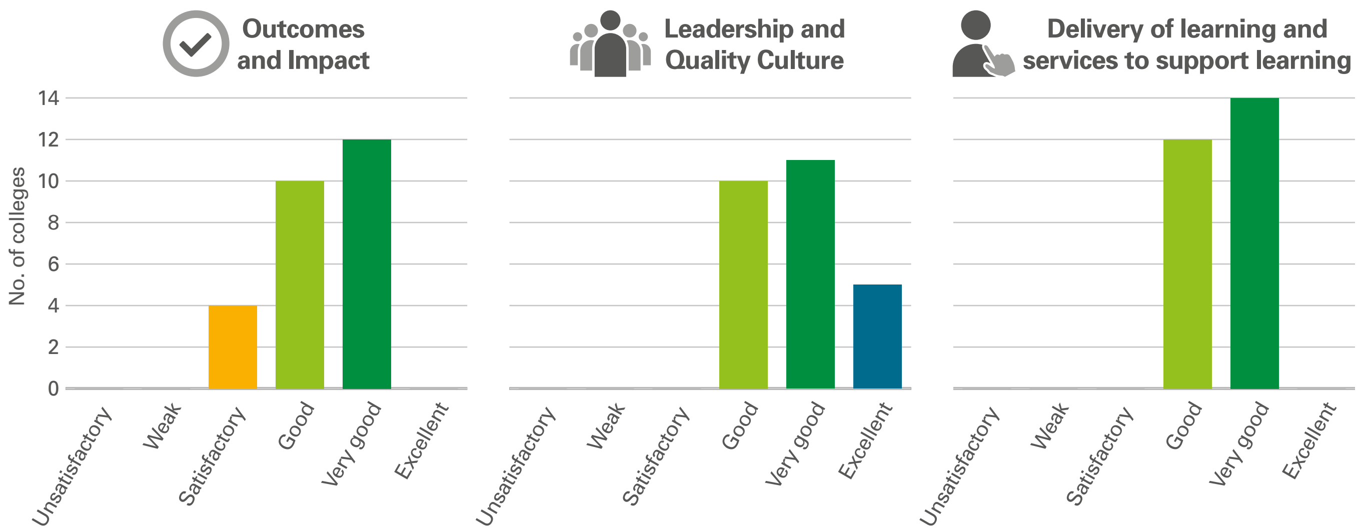
Colleges have published enhancement plans to improve their performance

55. The SFC and Education Scotland, the national body for supporting quality and improvement in learning and teaching, introduced a new quality assessment evaluation framework for colleges, *How good is our college?* in 2016.[21] The new quality framework is based on a validated self-evaluation and is intended to enable colleges to assess progress and develop an improvement plan.

56. In January 2019, individual college results were published for the first time with grades in three categories: Outcomes and impact; Leadership and quality culture; and Delivery of learning and services to support learning. All colleges graded themselves as 'Good' or above for two of the three categories. In general, colleges assessed their leadership most highly and the outcomes and impact for students least highly (Exhibit 19).

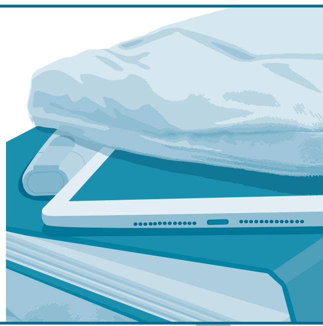
57. The factors considered in relation to 'Outcomes and impact' map closely to attainment and retention but not to positive destinations and student satisfaction. Some colleges which consider their performance to be 'Good' or better have relatively low levels of attainment (in the bottom half of the quartiles). It is not clear how colleges' own assessment of performance fits with the views of their students and staff.

Exhibit 19
College's self-evaluation grades



Source: Education Scotland

Endnotes



1 *College Staffing Data 2017-18*, Scottish Funding Council, 2019.

2 Financial forecast returns submitted by colleges to the SFC in September 2018 and covering the period to 2022-23.

3 College sector estates condition survey, Scottish Funding Council, December 2017.

4 This includes £1.5 million to support business cases for the highest priority campuses and £1.4 million for very high priority maintenance at Fife College.

5 *Outcome agreement funding for colleges*, Scottish Funding Council, 2019.

6 Erasmus+ is the European Union programme for education, training, youth and sport. It runs for seven years, from 2014 to 2020. Erasmus+ aims to modernise education, training and youth work across Europe. It is open to education, training, youth and sport organisations across all sectors of lifelong learning, including school education, further and higher education, adult education and the youth sector.

7 Lanarkshire region and the Highlands and Islands region both met their regional targets.

8 *College Statistics 2017-18*, Scottish Funding Council, 2019.

9 2018-19 Outcome Agreement Guidance, Letter from Minister for Further Education, Higher Education and Science to Chair of Scottish Funding Council, 2017.

10 SFC's Infact database.

11 According to the SFC's Infact database, 641 students did not give their gender or described it as 'Other'.

12 Gender Action Plan, Scottish Funding Council, 2016.

13 *College Statistics 2017-18*, Scottish Funding Council, 2019.

14 The level of deprivation is calculated using the Scottish Index of Multiple Deprivation (SIMD) 2016. In the previous two years, it is based on the SIMD 2012.

15 *College Region Outcome Agreements: Summary of Progress and Ambitions*, Scottish Funding Council, September 2017.

16 *College Region Outcome Agreements Summary of Progress and Ambitions report 2018*, Scottish Funding Council October 2018, summarises performance for the sector from colleges regions' Outcome Agreements.

17 *College Performance Indicators 2017-18, Scottish Funding Council*, 2019. Attainment on courses over 160 hours.

18 *Guidance for the development of College Outcome Agreements: 2017-18 to 2019-20*, Scottish Funding Council, 2016.

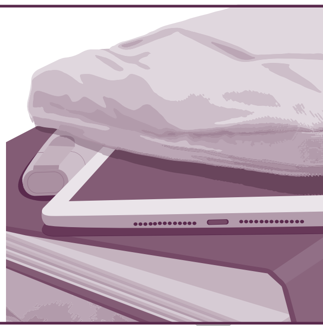
19 Dundee and Angus College, Edinburgh College, Inverness College UHI, New College Lanarkshire and West College Scotland.

20 *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018. The data available is for full-time students only across further and higher education.

21 *How good is our college?*, Education Scotland, 2016.

Appendix

Audit methodology



What the report covers

This report looks at all colleges in the sector and Scotland's Rural College (SRUC), to present a comprehensive picture of the sector and its performance.

Until 1992, Scottish councils ran all publicly funded colleges in Scotland. Under the Further and Higher Education (Scotland) Act 1992, most of these colleges established their own corporate body and boards of management. The boards of management took over responsibility for the financial and strategic management of the colleges. These colleges are referred to as incorporated colleges and produce accounts which are subject to audit by the Auditor General for Scotland. The remaining six colleges are generally referred to as non-incorporated colleges. SRUC is classed as a higher education institution but counts towards the achievement of the national target for colleges. The report primarily focuses on incorporated colleges. However, we state clearly where we include data relating to non-incorporated colleges.

The college sector in Scotland comprises the 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions (as shown in Appendix 2 of *Scotland's colleges 2018*). Ten of these regions consist of one college. The three remaining regions (Glasgow, Highlands and Islands, and Lanarkshire) have more than one college. The individual colleges in Glasgow and in Highlands and Islands are assigned to the relevant regional strategic body, ie Glasgow Colleges' Regional Board (GCRB) or University of Highlands and Islands (UHI). In Lanarkshire, New College Lanarkshire is the regional body and South Lanarkshire College is assigned to the Lanarkshire Board.

Financial commentary

Incorporated colleges prepare their accounts based on the academic year, which runs from 1 August to 31 July. This differs from the Scottish Government's financial year, which runs from 1 April to 31 March. We use the following conventions in this report:

- 2017-18 when referring to figures from colleges' accounts, or figures relating to the academic year
- 2017/18 when referring to funding allocations made in the Scottish Government's financial year.

Financial figures in real terms are adjusted for inflation. The base year for this report is 2017-18. The GDP deflator provides a measure of general inflation in the domestic economy. We have used the GDP deflator from March 2019 to calculate the real-terms figures for other years.

Our audit involved

- Analysing relevant Scottish Government budget documentation, colleges' audited accounts and auditors' reports covering the financial periods ending July 2018.
- Analysing information held by the SFC, including financial, performance and activity data.
- Interviewing Colleges Scotland, student unions, trade unions, the SFC and the Scottish Government.
- Analysing data that we requested from colleges' external auditors.

Detailed methodology for specific sections in the report

Underlying financial position (page 7)
Incorporated colleges reported an overall deficit of £29.8 million in their 2017-18 audited accounts. In reporting the underlying financial position, we have used the SFC's data for each college based on the accounts direction it issued in 2018.

Calculating student numbers (page 19)
In this report we present student numbers by headcount, drawn from the SFC's Infact database. Where possible, this headcount excludes any multiple enrolments, meaning if a student had been enrolled at two colleges in 2017-18 they would only be counted once. Where we show full-time and part-time student numbers this will include multiple enrolments.

In line with last year's report, we have included non-incorporated colleges and SRUC to give a comprehensive picture of performance against the Scottish Government's national target for learning activity.

For Information

Scotland's colleges 2019

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500
or info@audit-scotland.gov.uk

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From:	Fiona McFarlane <FMcFarlane@audit-scotland.gov.uk>
Sent:	09 June 2020 14:42
To:	alison.stewart
Subject:	Notification of the intention to extend external audit appointments

Intention to extend public audit appointments and the Code of Audit Practice

Forth Valley College

Dear Ms Alison Stewart,

I am writing to you to update you on the current audit appointments for Scotland's public bodies and the Code of Audit Practice that sets out the requirements on appointed auditors.

Audit appointments

As you will be very aware, the COVID-19 pandemic has resulted in significant disruption for public bodies and their capacity for financial reporting, and to auditors of the public sector.

Due to this, the Auditor General for Scotland and the Accounts Commission for Scotland intend to extend the current audit appointments by one year in the first instance. This is in line with provisions in the current contracts that allow for extensions of up to two years.

These appointments were for the audit of public bodies for the financial years of 2016/17 to 2020/21 inclusive. The intended extension would be through to the audit of the 2021/22 year. The Auditor General and the Commission will confirm both the extension and the time period in Autumn 2020.

Code of Audit Practice

The Code of Audit Practice was due to be renewed this year and in place from the start of the 2021/22 audits. In light of the difficult circumstances, the current code will apply to the extended appointments.

Earlier this year Audit Scotland carried out a public consultation on the new draft code. This has now closed, and later this year we will engage further with stakeholders on aspects of the draft code. This is with the aim of finalising the new code in early 2021.

These are challenging times for public bodies and auditors. By extending the current audit appointments, we can create the best opportunity to maintain high-quality audit services to the public sector in Scotland.

I also hope this news brings you a degree of clarity and certainty during a time of significant and fast-moving change.

If you have any questions, please don't hesitate to contact me.

Yours sincerely

Elaine Boyd

Elaine Boyd

Associate Director, Audit Quality and Appointments

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