

## Board of Management

Meeting	Board of Management
Date and time	Thursday 18 February 2021 at 4.30 p.m.
Location	VC – Microsoft Teams

Board Secretary  
11 February 2021

### AGENDA

#### Welcome and Apologies

#### Declarations of Interest

#### ITEMS FOR DECISION

1. **MINUTES**  
Meeting of the Board of Management – 01 December 2020
2. **OUTSTANDING ACTIONS**  
Action List
3. **PROCUREMENT REPORT**  
Report by Amanda MacKenzie, APUC
4. **GOVERNANCE APPOINTMENTS**
  - a) Non-Executive Members Appointment to the Board of Management
  - b) Co-Opted Member Appointment to the Audit Committee
  - c) Senior Independent Member Appointment
  - d) Vice Chair of Board of Management Nominations
  - e) Chair of Audit & Chair LT&R Committee Appointments
5. **AUDITED ACCOUNTS FOR YEAR END 31 JULY 2020**
  - a) Draft extract from Minutes of Meeting of the Joint Audit/Finance and General Purposes Committee – 27 January 2021
  - b) Annual report and accounts for the year ended 31 July 2020
  - c) Draft Inverness College Annual Audit Report by Ernst & Young
  - d) Letter of Representation
6. **AUDIT COMMITTEE ANNUAL REPORT TO THE BOARD OF MANAGEMENT**  
Report by Board Secretary and Director of Finance

- 7. PRINCIPAL'S REPORT**
- 8. AOCB**
- 9. DATE AND TIME OF NEXT MEETING**  
1st April 2021 at 4.30 p.m.

If any member wishes to add an item of business to the Agenda, please inform the Chair and the Board Secretary as soon as possible. Additional items of business will only be considered for inclusion in the agenda in advance of the start of the meeting.

**MINUTES of the MEETING of the BOARD OF MANAGEMENT held via Microsoft Teams, on Tuesday 01 December 2020**

**PRESENT:** Sarah Burton, Robyn Kennedy, Innis Montgomery, Chris O'Neil, John Wilson, Kelly Mackenzie, Ruth McFadyen, Gillian Galloway, Samantha Cribb, Andy Gray, Sally Blyth, Donald MacKenzie, Fiona Neilson, Leanne MacKenzie, Tina Stones

**CHAIR:** Sarah Burton

**APOLOGIES:** Vivienne Mackie and Director of Research and Innovation

**IN ATTENDANCE:** Depute Principal Planning and Student Experience  
Depute Principal Academic Development  
Director of Finance  
Director of External Relations  
Director of Student Experience  
Director of Curriculum  
Board Secretary

**Declarations of Interest**

No declarations of interest were noted.

**1. MINUTES OF THE BOARD OF MANAGEMENT MEETING HELD ON 06 OCTOBER 2020**

**Decision:** The minutes of the Board of Management Meeting held on 06 October 2020 were **AGREED** as a correct record and were **APPROVED**.

**2. OUTSTANDING ACTIONS**

**Decision:** The Committee noted that the two items on the outstanding actions list related to February and March 2021 and no update was required.

**3. POLICIES FOR APPROVAL**

- a) Standing Orders**
- b) Scheme of Delegation**

The Board Secretary advised that both the Standing Orders and the Scheme of Delegation for the Board of Management had been reviewed. No updates were found to be required and the documents had been recommended for approval by the Chairs Committee on 05 November 2020.

## ITEM 01

**Decision:** Both the Standing Orders and the Scheme of Delegation were **APPROVED** by the Board of Management.

### c) Code of Conduct

The Board Secretary advised that the Code of Conduct for the Board of Management had been reviewed. Suggested changes to the document had been taken to the Chairs Committee on 05 November 2020 who recommended it for approval.

**Decision:** The Code of Conduct was **APPROVED** by the Board of Management.

### d) Rules for Election of Staff to Boards

The Board Secretary advised that the Rules for Election of Staff to Boards for the Board of Management had been reviewed. No updates were found to be required and the document had been recommended for approval by the Chairs Committee on 05 November 2020.

**Decision:** The Rules for Election of Staff to Boards was **APPROVED** by the Board of Management.

### e.) Staff Disciplinary Policy

The Board of Management were advised that the Staff Disciplinary Policy had been recommended for approval by the HR Committee on 12 November 2020. Following discussion the Board of Management requested actions be carried out before any approval of the policy can be considered.

**Decision:** The Staff Disciplinary Policy was **not approved** by the Board of Management.

#### **Actions:**

- The Principal to liaise with the Chair of the HR Committee to ascertain the Lead Officer/Review Officer within the Policy.
- The Principal to ascertain why the reference to the Preventing Fraud and Corruption Policy was deleted and whether the issue of fraud and corruption is covered within another policy.

### f) Email Usage and Retention Policy

### g) Information Security Policy

### h) University Partnership IS Acceptable Use Policy

The Interim Audit Chair advised that the Email Usage and Retention Policy, the Information Security Policy and the University Partnership IS Acceptable Use Policy had been reviewed and had been recommended for approval by the Audit Committee on 10 November 2020.

**Decisions:** The Email Usage and Retention Policy, Information Security Policy and University Partnership IS Acceptable Use Policy were **APPROVED** by the Board of Management.

#### 4. FINANCIAL RECOVERY PLAN UPDATE

The Chair of the Board of Management advised that approval was being sought for the following:

- Whether the FRP should be concluded and we enter into a period of consolidation and pro-active planning.
- Whether we maintain the VSS as per the authority granted by the SFC and Alternatives to Redundancy policy until 31<sup>st</sup> March 2020 in order that we can find and deliver further efficiencies particularly in a post Covid-19 and Brexit environment.

The Chair of the Board of Management advised that Board approval was not sought on whether the review of the SMT structure should be progressed as this was an operational matter not a strategic matter and responsibility for this lay with the Principal.

The Principal took the Board of Management through the background to the Financial Recovery Plan noting that the following are now in place:

- A shared Director of Finance
- The completion of the upgrade of financial systems
- Control of TSR's
- Continuation and development of training for all budget holders.
- Commencement of course costing work.
- Commencement of the Curriculum Review.

The Board of Management noted that we have been able to achieve the necessary changes to the financial management culture within a 6-7 month period rather than the expected 18 month period.

The Director of Finance advised the Board of Management that a meeting had taken place between himself, the Principal and the Chair of the F&GP Committee where the Chair of the F&GP Committee advised that prior to seeking approval of the conclusion of the FRP that we needed to be able to demonstrate that we have:

- Control of the TSR's
- Financial Controls in place
- The ability to produce reports
- Built in planning measures to ensure that we maintain KPI's

Lengthy confidential discussions took place.

*Kelly MacKenzie joined the meeting at this point.*

The Board of Management commended the Principal and the SMT on the achievement of the FRP and welcomed the budget processes and systems which have been put in place. However the Board of Management also

expressed concern about whether it would be considered premature to close the FRP off with the VSS and ELCC still to be resolved. A discussion ensued whereby it was reiterated to the Board of Management that actions have been put in place to ensure our long term financial sustainability and that legal advice has been sought from 3 different organisations along with Unison.

The Board of Management noted that they would wish to have financial reports continue within agendas and requested a proposal be drawn up which specifies what they will see going forward.

**Decision:** The Board of Management **APPROVED** the conclusion of the FRP and the move into a period of consolidation and pro-active planning.

**Decision:** The Board of Management **APPROVED** the continuation of the VSS as per the authority granted by the SFC and the Alternatives to Redundancy Policy until 31<sup>st</sup> March 2021.

**Actions:**

- Financial reporting to remain on all appropriate agendas to ensure continued discussion.
- Proposal for what the Board will see going forward to be drawn up and discussed at the next Board Meeting.

### 5. FINANCIAL POSITION 2021

The Director of Finance took the Board of Management through his report highlighting that he had included the budgets for both October and November as it was felt useful to see movement and variances for both months. The Board of Management noted that cost drivers had reduced whilst staff costs had increased with reasons behind this increase explained to the Board of Management.

The Director of Finance highlighted to the Board of Management that we expect to receive an additional fee in respect of the External Audit due to Covid-19.

### 6. COVID-19 AND PLANNING FOR 21/22 REPORT

The Depute Principal – Academic Development took the Board of Management through the first half of the report noting the following:

- That we remain vigilant within a changing environment and that no cases of Covid-19 have been transmitted within the College.
- That there remains capacity challenges due to the 2m distancing and that this is especially noticeable amongst the construction and engineering workshops however some changes to workshop layouts have assisted with this.
- That we expect Semester 2 to continue with the same restrictions as Semester 1 with risk assessments in place for learning activities out with the building.

## ITEM 01

- That we are continuing to assess options available to us such as extending opening hours, additional changes to layout to try and get maximum capacity from the building.

The Board of Management was advised that we are negotiating access to Covid-19 testing within the carpark and with the walk in centre in Glenurquhart Road with regards students leaving the residencies to spend Christmas at home. This will be available for students to book online. Information is awaited from the Scottish Government with regards testing upon return to residencies in January 2021.

The Depute Principal Planning and Student Experience took the Board of Management through the second half of the report noting the following:

- Reduced credit activity
- Reduced student satisfaction by 9%. However it was noted that this reduction in satisfaction was seen regionally.
- Online enrolments.
- Increased early withdrawal rates for students on FT FE programmes. It was noted that again this appeared to be a pattern within the sector.
- Increase in HE recruitment this year.

### 7. PRINCIPAL'S REPORT

The Principal took the Board of Management through his report and highlighted:

- That the UHI New Vice Chancellor will begin his role on 1<sup>st</sup> February 2021.
- Biggar Economics Report
- Brexit

**Action:** The Board of Management noted that the results of the staff survey would be available for discussion at the next meeting and that the HR Department are currently collating comments received from staff.

### 8. RAM CONSULTATION

The Principal advised that our views on the RAM consultation are sought by 18 December 2020. The SMT have discussed this and a Board response is now sought. The Board of Management noted that change is required due to the complexities of the RAM and that the SFC have indicated that they may change the funding to a tertiary RAM.

A lengthy discussion ensued which highlighted:

- Rurality funding and allowance
- A tertiary funding model
- Curriculum review
- Regional and Local Core.
- Non SFC funded activities
- Potential levies.
- Partnership Planning Forum

- Estates strategy and the impact of curriculum development on this strategy.

Model 3 was discussed with the Board of Management noting that whilst this model may advantage the smaller partners it was felt that it would be an easier transition, that it is the least turbulent of all the proposed models and offers greater flexibility and opportunity to develop and evolve.

**Decision:** Following discussion it was agreed that we would cautiously support model 3.

**Action:** The Principal and Chair will prepare our response to the proposals and will share this with the Board of Management via email.

### **9. SFC ANNUAL REPORT AND ACCOUNTS**

The Chair advised the Board of Management that this paper was for their information only.

### **10. DRAFT MINUTES OF MEETINGS OF BOARD COMMITTEES (CONFIDENTIAL)**

The Board of Management noted the following draft minutes of meetings:

- a. Longman Disposal Project Board – 03 September 2020
- b. Search and Nomination Committee – 10 September 2020
- c. Audit Committee – 15 September 2020
- d. HR Committee – 17 September 2020
- e. LT&R Committee – 22 September 2020
- f. F&GP Committee – 01 October 2020
- g. Chairs Committee – 08 October 2020
- h. Estates Legacy Project Board – 03 November 2020
- i. Chairs Committee – 05 November 2020
- j. Audit Committee – 10 November 2020

### **11. UHI COURT – QUARTERLY UPDATE FROM UHI SMT & ACADEMIC**

The Board of Management noted the contents of this update.

### **12. NOTES FROM REGIONAL STRATEGIC COUNCIL MEETING**

The Board of Management noted the minutes of the Regional Strategic Council Meeting held on 05 May 2020.

### **13. HARDSHIP REPORT**

The Board of Management noted the contents of this report.

### **14. AOCB**



## ITEM 01

The Chair advised that we have recommended four candidates for appointment to the Board of Management. Thanks were given to the Board Members who formed the shortlisting panel and to those on the interview panel.

The Board of Management noted that a strategy session will be held on 10 December 2020.

Thanks were given to John Wilson for his 15 years of service on the Board of Management during which time he has chaired committees and undertaken the roles of Senior Independent Member and the Vice-Chair of the Board of Management.

### **15. DATE AND TIME OF NEXT MEETING**

Date of Next Meeting: 18 February 2021 at 4.30 p.m.

Signed by Chair:

Date:

## Board of Management – List of Outstanding Actions

<b>30 April 2020</b>				
<b>Committee Representation</b>	The Chair will continue discussing HISA representation on additional Committees following the conclusion of the External Effectiveness Review.	Chair of BOM	Beginning of 2021.	
<b>OSCR Return</b>	The OSCR return for 19/20 to be drafted in March 2021	Board Secretary	March 2021	
<b>01 December 2020</b>				
<b>Staff Disciplinary Policy</b>	<p>The Principal to liaise with the Chair of the HR Committee to ascertain the Lead Officer/Review Officer within the Policy.</p> <p>The Principal to ascertain why the reference to the Preventing Fraud and Corruption Policy was deleted and whether the issue of fraud and corruption is covered within another policy.</p>	Principal	December 2020	
<b>FRP</b>	Proposal for what the Board will see going forward to be drawn up.	Principal and DOF	January 2021	
<b>Principal's Report</b>	Results of the staff survey will be available for discussion at the next BOM meeting.			

## Board of Management Committee

<b>Subject/Title:</b>	Annual Procurement and Value for Money Report 2019-20
<b>Author:</b> [Name and Job title]	Swarna Bhargava Derek Cowie Amanda MacKenzie
<b>Meeting:</b>	Board of Management
<b>Meeting Date:</b>	18 February 2021
<b>Date Paper prepared:</b>	20 January 2021
<b>Brief Summary of the paper:</b>	This report covers the period of August 2019 to July 2020 and addresses performance and achievements in delivering the Inverness College UHI procurement activities.
<b>Action requested:</b> [Approval, recommendation, discussion, noting]	Approval
<b>Link to Strategy:</b> Please highlight how the paper links to, or assists with:: <ul style="list-style-type: none"> <li>• compliance</li> <li>• partnership services</li> <li>• risk management</li> <li>• strategic plan</li> <li>• new opportunity/change</li> </ul>	Compliance with The Procurement Reform (Scotland) Act 2014 (PRA) whereby any public organisation which has an estimated annual regulated spend of £5 million or more has to develop a procurement strategy and review it annually.
<b>Resource implications:</b>	Yes / No <b>If yes, please specify:</b>
<b>Risk implications:</b>	Yes / No <b>If yes, please specify:</b> Operational: Organisational:
<b>Equality and Diversity implications:</b>	Yes/No <b>If yes, please specify:</b>
<b>Consultation:</b> [staff, students, UHI & Partners, External] and provide detail	

<b>Status –</b> [Confidential/Non confidential]	Confidential		
<b>Freedom of Information</b> Can this paper be included in “open” business* [Yes/No]	No		
*If a paper should <b>not</b> be included within “open” business, please highlight below the reason.			
Its disclosure would substantially prejudice a programme of research (S27)		Its disclosure would substantially prejudice the effective conduct of public affairs (S30)	
Its disclosure would substantially prejudice the commercial interests of any person or organisation (S33)	X	Its disclosure would constitute a breach of confidence actionable in court (S36)	
Its disclosure would constitute a breach of the Data Protection Act (S38)		Other (please give further details)	
For how long must the paper be withheld? (express either as the time which needs to pass or a condition which needs to be met.)			

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

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

[http://www.itspublicknowledge.info/web/FILES/Public\\_Interest\\_Test.pdf](http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf)

**Board of Management**

<b>Subject/Title:</b>	Governance Update
<b>Author:</b> [Name and Job title]	Lisa Ross Board Secretary
<b>Meeting:</b>	Board of Management
<b>Meeting Date:</b>	18 February 2021
<b>Date Paper prepared:</b>	11 February 2021
<b>Brief Summary of the paper:</b>	<ul style="list-style-type: none"> <li>a. Non-Executive Members Appointment to the BOM</li> <li>b. Co-opted Member Appointment to the Audit Committee</li> <li>c. Senior Independent Member Appointment</li> <li>d. Vice Chair Nominations</li> <li>e. Chair of the Audit Committee and Chair of LT&amp;R Committee Appointments</li> </ul>
<b>Action requested:</b> [Approval, recommendation, discussion, noting]	Approval
<b>Link to Strategy:</b> Please highlight how the paper links to, or assists with:: <ul style="list-style-type: none"> <li>• compliance</li> <li>• partnership services</li> <li>• risk management</li> <li>• strategic plan</li> <li>• new opportunity/change</li> </ul>	<ul style="list-style-type: none"> <li>• Governance Compliance</li> </ul>
<b>Resource implications:</b>	None <b>If yes, please specify:</b>
<b>Risk implications:</b>	None <b>If yes, please specify:</b> Operational: Organisational: achieving student numbers targets
<b>Equality and Diversity implications:</b>	None <b>If yes, please specify:</b>
<b>Consultation:</b> [staff, students, UHI & Partners, External] and provide detail	

## ITEM 04

<b>Status</b> – [Confidential/Non confidential]	Non confidential		
<b>Freedom of Information</b> Can this paper be included in “open” business* [Yes/No]	Yes		
*If a paper should <b>not</b> be included within “open” business, please highlight below the reason.			
Its disclosure would substantially prejudice a programme of research (S27)		Its disclosure would substantially prejudice the effective conduct of public affairs (S30)	
Its disclosure would substantially prejudice the commercial interests of any person or organisation (S33)		Its disclosure would constitute a breach of confidence actionable in court (S36)	
Its disclosure would constitute a breach of the Data Protection Act (S38)		Other (please give further details)	
For how long must the paper be withheld? (express either as the time which needs to pass or a condition which needs to be met.)			

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[http://www.itspublicknowledge.info/web/FILES/Public\\_Interest\\_Test.pdf](http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf)

## A. Appointment of new Board of Management Members

Following a recruitment process carried out during October and November 2020 we received 17 applications to join the Board of Management. Eight applicants were shortlisted and following interviews four applicants were offered the position of Non-Executive Members of the Board of Management. The interview panel consisted of Sarah Burton, Chair of the Board of Management, John Wilson, Vice Chair of the Board of Management, Garry Coutts, Chair of Court and Gavin Ross as the panel's independent member. The panel's decision was unanimous.

UHI approval of these appointments was received on 1<sup>st</sup> February 2021.

**Recommendation:** That the Board of Management approve the appointment of:

- Arvinder Kainth
- Mark Sheridan
- Russell Edwards
- Tina Stones

## B. Appointment of a Co-opted Member to the Audit Committee

As part of the above recruitment process the interview panel following interview offered the role of Co-opted Member to the Audit Committee to Amy Goodbrand. Again the panel's decision was unanimous.

**Recommendation:** That the Board of Management approve the appointment of Amy Goodbrand as a Co-opted Member of the Audit Committee.

## C. Senior Independent Member Appointment

A Senior Independent Member for the Board of Management provides advice and guidance to the Board Chair, as required and on Board Members behalf in order to support good standards of corporate governance and the maintenance of collective responsibility.

Situations in which that advice and guidance may be required include:

- a) Acting as a sounding board for the Chair in pursuit of good standards of corporate governance and collective responsibility.
- b) Leading the annual appraisal of the Board Chair, alone or in conjunction with the Vice Chair, including ensuring
  - i. Board members have an opportunity to express their views on the Chair's performance over the last year and areas for development over the coming 12 months
  - ii. An annual development plan is agreed with the Chair
  - iii. If required, the senior independent member facilitates the provision of information from the appraisal process to the Board
- c) Intervening with the Chair, on behalf of the Board, if board members, the board secretary or senior staff are concerned that the Chair's actions are undermining good standards of corporate governance and the maintenance of collective responsibility.

As the longest serving member on the Board of Management Innis Montgomery has been offered and accepted this position.

**Recommendation:** That the Board of Management approve the appointment of Innis Montgomery to the role of Senior Independent Member.

## D. Vice Chair Nominations

All Board of Management members were advised on 17 December 2020 that the Vice Chair John Wilson was due to stand down from that position on 31<sup>st</sup> December 2020 and a call for nominations was made. One sole nomination has been made.

### Process

In terms of the Election of Vice Chair Procedure, there will be a ballot:

1. Nominated members will be provided with the opportunity to address the Board of Management for no more than 5 minutes, prior to the votes being cast.
2. In the case of a sole nomination, members will be asked to support the nomination. In the event of a dead heat, a second ballot will take place. If a simple majority vote does not support the nomination, the position will remain vacant and will be reconsidered at the next Board of Management meeting.
3. Votes cast will be counted by the College Secretary and a scrutineer. The result will be announced by the College Secretary and recorded and signed by her and the scrutineer.

**Recommendation:** Board members are asked to note the process outlined above and to participate in the ballot during the Board meeting.

## E. Audit and LT&R Committee Chairs

Following the departure of the interim Audit Chair in January 2021 and the LT&R Chair in August 2020 there is a need to fill these roles.

The Chair Designate has discussed these roles with members of the Committees and the following have agreed to take on these roles, subject to Board approval:

1. Chair of Learning, Teaching and Research – Tina Stones.
2. Chair of Audit – Gillian Galloway

**Recommendation:** That Board Members approve the appointments.



## Board of Management

<b>Subject/Title:</b>	Covering Report on the College Financial Statements for the Year Ended 31 July 2020
<b>Author:</b> [Name and Job title]	Roddy Ferrier, Director of Finance
<b>Meeting:</b>	Board of Management
<b>Meeting Date:</b>	18 February 2021
<b>Date Paper prepared:</b>	20 January 2021
<b>Brief Summary of the paper:</b>	To summarise the key points reported in the financial statements for the year ended 31 July 2020.
<b>Action requested:</b> [Approval, recommendation, discussion, noting]	To discuss the financial statements for the year ended 31 July 2020 which have been recommended for approval by the Joint Audit and F&GP Committee held on 27 January 2021.
<b>Link to Strategy:</b> Please highlight how the paper links to, or assists with:: <ul style="list-style-type: none"> <li>• compliance</li> <li>• partnership services</li> <li>• risk management</li> <li>• strategic plan</li> <li>• new opportunity/change</li> </ul>	Compliance – adherence to the Financial Memorandum with UHI as RSB, compliance with various accounting requirements.
<b>Resource implications:</b>	Yes / No <b>If yes, please specify:</b>
<b>Risk implications:</b>	Yes / No <b>If yes, please specify:</b> Operational: Organisational:
<b>Equality and Diversity implications:</b>	No <b>If yes, please specify:</b>
<b>Consultation:</b> [staff, students, UHI & Partners, External] and provide detail	N/A

## Item 05b

<b>Status –</b> [Confidential/Non confidential]	Confidential		
<b>Freedom of Information</b> Can this paper be included in “open” business* [Yes/No]	No		
*If a paper should <b>not</b> be included within “open” business, please highlight below the reason.			
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Its disclosure would substantially prejudice the commercial interests of any person or organisation (S33)	x	Its disclosure would constitute a breach of confidence actionable in court (S36)	
Its disclosure would constitute a breach of the Data Protection Act (S38)		Other (please give further details)	
For how long must the paper be withheld? (express either as the time which needs to pass or a condition which needs to be met.)		Until the Scottish Parliament have approved the annual accounts.	

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

[http://www.itspublicknowledge.info/web/FILES/Public\\_Interest\\_Test.pdf](http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf)

# Inverness College

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

**27 January 2021**



**Building a better  
working world**

# Contents

Section	Auditor Responsibility	Page
<b>Executive Summary</b>	Summarise the key conclusions from our audit	03
<b>Financial statements audit</b>	Provide an opinion on audited bodies' financial statements  Review and report on, as appropriate, other information such as the annual governance statement, management commentary and remuneration report	09
<b>Wider scope dimensions</b>	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none"> <li>▶ financial position and arrangements for securing financial sustainability</li> <li>▶ suitability and effectiveness of corporate governance arrangements</li> </ul>	17
<b>Appendices</b>	Undertake statutory duties, and comply with professional engagement and ethical standards: <ul style="list-style-type: none"> <li>A - Code of Audit Practice: responsibilities</li> <li>B - Independence and audit quality</li> <li>C - Required communications with the audit and risk committee</li> <li>D - Audit differences identified during the audit</li> <li>E - Audit recommendations identified throughout the audit</li> <li>F - Follow up of prior year recommendations</li> <li>G - Timing and deliverables of the audit</li> </ul>	26

## About this report

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

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

## Complaints

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

# Executive Summary: Key Conclusions from our 2019/20 audit

We have issued an unqualified audit opinion on the College's 2019/20 financial statements.

We updated our risk assessment in response to the global pandemic, and as a result placed additional focus on:

- ▶ the adequacy of the College's disclosures in relation to the pandemic; and
- ▶ management's assessment of going concern and the related financial impact of Covid-19 on the College in the year and going forward.

## Financial Statements

*[We have materially completed our audit of the College's financial statements for the year ended 31 July 2020].* Five audit adjustments were required to be made and there were two further unadjusted differences identified that we are required to communicate. The draft financial statements and supporting working papers were provided in line with the agreed audit timetable and were of a reasonable standard. We worked with the finance team to update and make improvements to the financial statements, in particular around Covid-19 and going concern disclosures.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the disclosures reflect the College's compliance with the *Code of Good Governance for Scotland's Colleges*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

## Going Concern

Management is required to conclude on the going concern basis of preparation in the financial statements. As a result of the unprecedented financial and operational pressures faced by the College to respond to Covid-19, we placed additional emphasis on management's assessment of going concern and the related need to report on the impact of financial pressures on the College and its financial sustainability. We were satisfied that the College remains a going concern and worked with management to ensure appropriate disclosures were made in the financial statements in relation to the College's financial position. We have considered the related risks to the financial sustainability of the College and its longer term delivery of strategic objectives in our wider scope reporting.

Wider Scope and Best Value

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

<p><b>Financial Sustainability</b></p> <p>The financial environment in which the College operates continues to be challenging, and the Covid-19 pandemic has resulted in further, significant financial pressures.</p> <p>The College prepared a financial forecast return in August 2020 which forecasts an underlying operating surplus position over three years of up to £3.9 million. This includes the forecast benefits from significant savings related to the College’s 2020 financial recovery plan, but also recognises significant ongoing risk around future costs.</p> <p>AMBER</p>	<p><b>Governance and Transparency</b></p> <p>The key features of good governance have remained in place at the College and have been operating effectively throughout the Covid-19 lockdown.</p> <p>The College responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. However, a number of actions remained unimplemented from previous audits.</p> <p>AMBER</p>
<p><b>Financial Management</b></p> <p>We are satisfied that the College’s financial monitoring and reporting was clear and consistent throughout the year, and that the core financial management arrangements were not materially impacted as a result of Covid-19 and the subsequent lockdown.</p> <p>We recognise that action has been taken to address issues around financial management arrangements. We have noted the risk around the new financial management model and potential capacity pressures on management and the finance team. Progress is still outstanding in respect of Audit Scotland’s NFI requirements and review of key accounting models. We noted a number of audit differences, in areas recurring from previous years, in particular around yearend accruals and pensions accounting.</p> <p>GREEN</p>	



# Introduction

As a result of the impact of Covid-19, Audit Scotland agreed to extend our appointment as external auditor of the College by at least 12 months, to 2021/22.

## Purpose of this report

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

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

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

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



## Our independence

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

## Scope and Responsibilities

The Code sets out the responsibilities of both the College and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the audit committee on in June 2020.

## The impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in April and May 2020, and presented our Annual Audit Plan to the College's audit committee in June 2020. While the declaration of the global Covid-19 pandemic and the resulting lockdown arrangements were in place, we noted at the time that there remained a significant number of uncertainties over how the pandemic could impact the College's financial statements preparation and arrangements around the areas of wider scope subject to audit. As a result, we revisited our planning assessments for the 2019/20 audit and presented an updated Annual Audit Plan Addendum to College management and the Audit and Risk Committee in November 2020.

As a result of our assessment we have not identified any new financial statement risks. There are, however, a number of areas of audit where we identified increased risks or new areas of focus within existing risks. The financial statement disclosures were also expected to have been impacted by Covid-19, including:

- ▶ **Governance Statement:** The governance statement is required to capture how the governance arrangements changed during the lockdown period and what steps were taken to maintain a robust control environment during the disruption.
- ▶ **Disclosures and estimates:** Additional disclosures were required throughout the financial statements, including the performance and accountability report, 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. These include disclosures on significant events after the balance sheet date.
- ▶ **Going concern:** In accordance with the Government Financial Reporting Manual ('the FReM'), the College should 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 increased financial pressures throughout the public sector. Uncertainty remains about the level of financial support that may become available from the Scottish Government to reflect the financial consequences. In light of this, the audit placed increased focus on management's disclosures regarding the going concern basis of preparation in the financial statements, in particular the financial impact of Covid-19 and the future financial sustainability of the College. The results of this assessment are reported in Section 2 on page 16.

The ongoing disruption to the delivery of further education as a result of the Covid-19 has a pervasive impact upon the financial statements.

The financial statements have been updated to reflect the impact of Covid-19 on the College's financial position and performance.



Adaption to remote working

Our audit fieldwork was completed remotely as a result of the Scottish Government’s lockdown restrictions. There were two key impacts:

- ▶ Additional work was required to assess the format of evidence provided and where necessary, procedures were performed to validate the authenticity of evidence; and
- ▶ All contact with senior management and the finance team was conducted via virtual meetings. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality based on 1% of operating expenditure. We have considered whether any change to our materiality was required in light of Covid-19 and we remain satisfied that the materiality values reported within our Annual Audit Plan remain appropriate. As we reported in our Annual Audit Plan Addendum we audit a number of areas of additional focus to lower materiality levels.

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

Overall Materiality

Tolerable Error

Nominal amount

£280,000

£140,000

£14,000

1% of the College's operating expenditure

Materiality at an individual account level

Level that we will report to committee

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

### **Financial statement audit**

We are responsible for conducting an audit of the College's financial statements. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; relevant Auditing Standards and applicable Practice Notes issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

We are responsible for conducting an audit of the financial statements of the College and provide an opinion on the financial statements as to:

- ▶ whether they give a true and fair view of the state of affairs of the College as at 31 July 2020 and the deficit for the year then ended;
- ▶ whether they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ whether they have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Our findings are summarised in Section 2 of this report.

### **Wider Scope audit**

Our responsibilities extend beyond the audit of the financial statements. Together the Accounts Commission and the Auditor General for Scotland agreed the two dimensions set out in the Code which comprise the wider scope audit for small public sector bodies in Scotland. These are financial sustainability and governance and transparency. We outlined in our Annual Audit Plan Addendum that, given the impact of Covid-19 and associated risks around robust financial management, we would consider this dimension as part of our work in 2019/20.

Our findings are summarised in Section 3 of this report.

### **Outstanding audit matters**

While our audit work is materially complete, we note the following areas of outstanding work at the time of the drafting of this report which require satisfactory completion before we can finalise our work and issue our audit opinion on the College's financial statements:

- ▶ Receiving all outstanding information through the EY Client Portal and finalisation of audit work in the related areas, including Remuneration Report, Related Parties and NPD Long Term Creditor balances;
- ▶ Finalisation of audit manager and partner review of all work and documentation, including updated disclosures; and
- ▶ Completion of subsequent events inquiries and audit work through to the date of approval of the financial statements; receipt of the signed letter of representation and signed financial statements.

# 2 Financial Statements audit

## Introduction

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

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

The plan highlighted one area that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition, including through management override of controls.

## Compliance with financial reporting requirements

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

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

Management provided draft financial statements at the start of the audit, in line with the agreed timetable. The financial statements included a number of sections which were incomplete. We finalised our review of the financial statements in conjunction with finalisation of key areas of work around going concern and the impact of Covid-19, pension and fixed asset valuations. The financial statements also needed to be updated for the new requirements as outlined in the SFC's 2019/20 Accounts Direction for colleges and the new FE SORP which was applicable this year.

## Audit Outcomes

We identified five adjusted audit differences arising from the audit which have been reflected within the financial statements. We also identified a further two differences, which management has decided not to adjust. We have outlined all adjustments at Appendix D. Our overall audit opinion is summarised on the following page.

The FE/HE SORP 2019 edition became effective for the year ended 31 July 2020. We considered any required changes in conjunction with management and concluded the only material change being the new 'Analysis of Debt' disclosure.

# Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
<b>Financial statements</b> The financial statements provide a true and fair view of the state of affairs of the College at 31 July 2020 and of the deficit for the year then ended The financial statements are prepared in accordance with the financial reporting framework	We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement. We are satisfied that accounting policies are appropriate and estimates are reasonable. We have considered the financial statements against the financial reporting requirements, and additional guidance issued by the SFC and Audit Scotland.	We issued an unqualified audit opinion on the 2019/20 financial statements for the College.
<b>Going concern</b> We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting	We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis. Wider scope procedures, including financial forecasts are considered as part of our work on financial sustainability.	We have no matters to report. Our work is outlined in more detail on page 16.
<b>Other information</b> We consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit	We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon: <ul style="list-style-type: none"> <li>Review of committee minutes and papers, regular discussions with management, our understanding of the College and the sector.</li> </ul>	We are satisfied that the annual report materially meets the core requirements set out in the Accounts Direction.
<b>Report on regularity of income and expenditure</b> We are required to consider whether in all material respects the income and expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers	Our procedures include: <ul style="list-style-type: none"> <li>Understanding the applicable enactments and guidance issued by the Scottish Ministers</li> <li>Performed detailed testing of income and expenditure testing to ensure transactions are in line with enactments and guidance</li> </ul>	We are satisfied that in all material respects income and expenditure are regular.
<b>Matters prescribed by the Auditor General for Scotland</b> Audited part of Remuneration Report has been properly prepared. The Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.	We are required to report on whether the sections of the Remuneration and Staff Report, and Accountability Report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.	We have no matters to report.
<b>Matters on which we are required to report by exception</b>	We are required to report on whether: <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit</li> </ul>	We have no matters to report.

# Significant and fraud audit risks

## **Risk of Fraud in revenue and expenditure recognition**

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

As also outlined in our Annual Audit Plan, we rebut the risk of improper recognition of Scottish Funding Council ("SFC") core grant funding because there is no judgement in respect of this income stream. With regards to expenditure, we rebut the risk of improper recognition of payroll expenditure.

## **Specific procedures relating to significant risks**

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

- ▶ Review and challenge management's accounting estimates over revenue or expenditure recognition for evidence of bias;
- ▶ Review transaction listings for individually material balances and unusual items to agree to supporting documentation and third party evidence;
- ▶ Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage across all balances;
- ▶ Review and test income and expenditure around the financial yearend to ensure it is accounted for in the correct financial period;
- ▶ Perform an additional search for material payments and receipts received after year end and ensured these had been accounted for in the correct period; and
- ▶ Review both income and expenditure for additional revenue streams and related to the Covid-19 outbreak, such as additional grant income or additional health and safety costs.

## **Our conclusions**

- ▶ Our testing identified a number of misstatements relating to revenue and expenditure recognition, as outlined in Appendix D. These differences were immaterial individually and cumulatively. The impact of the misstatements was varied with some adjustments increasing and some reducing the College's deficit, and as such we are comfortable there is no indication of fraud in the preparation of the financial statements.
- ▶ There were no new material income or expenditure streams as a result of Covid-19. The College disclosed the additional income received in the year from the Government job retention scheme in line with the requirements of the Accounts Direction. We agreed the impact of Covid-19 on tuition fees with management and concurred with the treatment in the financial statements.

## **Risk of management override**

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

## **Risk of Fraud**

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

## **Testing on Journal Entries**

- ▶ We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained all journals posted in the financial year and used our data analysers to identify those requiring further investigation and corroboration, such as those posted by management to key accounts around the financial yearend.

## **Judgements and Estimates**

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

## **Significant unusual transactions**

- ▶ We evaluated the business rationale for any significant unusual transactions appearing in the financial statements in the year.

## **Accounting Policies**

- ▶ We considered the consistency and application of accounting policies, and the overall presentation of financial information.

## **Our conclusions**

- ▶ We have not identified any additional risks in respect of potential frauds in the financial year.
- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

### Valuation of Property, Plant & Equipment

In 2018/19 the College's existing land and buildings were subject to a revaluation in line with the requirements of the underlying accounting code, resulting in an uplift of £3 million on the asset values.

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 was subject to change during the year, there remains increased uncertainty around the valuation of assets in the current environment. Caveats may be included within valuation reports and other information provided by valuers, highlighting uncertainties which give rise to additional risks relating to financial statement disclosures as well as the valuations themselves.

Our approach focused on:

- ▶ analysis of the source data and inquiries as to the procedures used by management's specialist to establish whether the source data is complete
- ▶ assessment of the reasonableness of the assumptions and methods used by the College in applying their indexation factor, including their compliance with the SORP
- ▶ consideration of the appropriateness of the timing of when the specialist carried out the work
- ▶ assessment of whether the substance of the specialist's findings are properly reflected in the financial statements
- ▶ consideration of the material uncertainty that management's specialist may add to their valuation reports due to Covid-19, and the potential impact on our audit approach and opinion.
- ▶ assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation

We utilised our internal specialists to examine information provided by the College's independent valuers for the valuation of the College estate at 31 July 2020, specifically for the Longman site valuation.

#### Our conclusions

- ▶ We concluded that there were no material audit differences in the approach and conclusions around management's valuation of the College's estate at 31 July 2020.
- ▶ Our internal specialists concurred that the College's valuation of the Longman site at 31 July 2020 was materially accurate and we agreed the accounting transactions, including the transfer to assets held for sale, through the financial year were correct.



# Other Inherent Risk Areas

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

## Valuation of net pension liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (Highland Council Pension Fund) and the Scottish Teachers Superannuation Scheme (STSS). At 31 July 2020, the College's share of the pension scheme net liability totalled £6.557 million (2018/19: £2.638 million) and the present value of the unfunded obligation in relation to early retirements agreed in previous years is £2.3 million (2018/19: £2.1 million). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the FRS 102 report issued to the College by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach included:

- ▶ obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of actuarial assumptions underpinning such reports in conjunction with our internal specialists;
- ▶ performing substantive testing on the verification of the pension assets. Specifically, we engage with the auditor of Highland Council Pension Fund in line with the assurance protocols laid out by Audit Scotland for IAS 19 and FRS 102, including consideration of possible valuation uncertainties driven by the impact of Covid-19. We also analyse the fund's estimated asset position at 31 July 2020 from its financial yearend position at 31 March 2020 against expectations based on equity and other market movements in that time period;
- ▶ assessing the work of the actuaries in considering the impact of new and changing legal rulings impacting the liabilities in the fund, in particular in relation to the impact of updated guidance on the impact of the McCloud ruling and the new Goodwin judgement; and
- ▶ reviewing the calculation of the College's valuation of future early retirement liabilities at 31 July 2020, including the integrity of the underlying pensioner data used by the actuary and College.

## Our conclusions

- ▶ We have outlined in Appendix D an audit adjustment in relation to valuation of the College's share of the Highland Pension Fund asset position at the College's balance sheet date. This relates to where the Fund's actuaries use estimates for yearend asset valuations, which are subsequently updated for actual investment returns if the difference is material post yearend.
- ▶ Assumptions used by the actuary and adopted by the College are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.
- ▶ We have outlined in Appendix D an audit adjustment in relation to the actuary's estimate of the valuation of the McCloud judgement impact on the College's liability at the yearend.



### Inherent Risk – Capital Financial Arrangements

In 2015 the College took possession of its new campus buildings, using the Scottish Futures Trust's Non-Profit Distributing (NPD) model. Under the NPD arrangement, the College makes monthly service charge "unitary charge" payments which include the capital element of the loan funding together with interest, facilities management and building lifecycle costs. As at 31 July 2020 the present value of future lease payments was reported as £36.4 million.

Given the material value of the NPD liability as well as the complexity of the associated accounting treatment we consider this as an area of higher inherent risk.

Our approach included:

- ▶ reviewing the College's NPD accounting and disclosures against the requirements of the SORP and FRS 102 and against the underlying contracts;
- ▶ auditing the NPD agreements and accounting model to consider the reasonableness of the NPD disclosure within the financial statements; and
- ▶ discussion with management against our recommendation made in our 2016/17 Annual Audit Report, which remained outstanding during 2017/18 and 2018/19 audits. Specifically, we recommended management to review the current accounting model to consider the assumptions contained therein, whether they remained appropriate and in particular whether the model should incorporate contingent rent within the calculation.

Management should ensure that its review of the NPD model and accounting treatment is completed as quickly as practically possible.  
*Recommendation 1*

### Our conclusions

- ▶ We are satisfied that the NPD liability and associated accounting treatment and disclosure is free from material misstatement for the year ended 31 July 2020.
- ▶ From 2016/17 we have recommended to management that it review the model and accounting treatment to ensure it continues to meet the requirements of FRS 102. This was specifically in respect of whether the model should contain contingent rent. This process has yet to be fully implemented.

# Going concern

In accordance with the FReM, the College shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still require 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.

The rationale for going concern remains the same, but we placed increased focus on management's assertion of going concern and disclosures relating to financial sustainability as a result of the uncertainty and unprecedented budget pressures caused by Covid-19.

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 Scottish Funding Council (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 going concern assessment and associated disclosures cover at least the 12 month period from the date of approval of the financial statements, but may be expected to include future performance through the medium term.

The College has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the College's financial position going forward in the financial sustainability section of this report. Management has provided a cash flow forecast for the College through the going concern assessment period to supplement its formal assessment paper.

Our approach included:

- ▶ ensuring the completeness of factors considered in management's going concern assessment;
- ▶ checking the integrity and robustness of the underlying cash flow forecasts supporting future financial projections, in particular if the College projects to require financial support during the going concern assessment period; and
- ▶ the appropriateness of disclosures in the financial statements in relation to going concern and future financial performance in line with the requirements of the SFC 2019/20 Accounts Direction.

## Our conclusions

- ▶ We are satisfied that it remains appropriate for the College financial statements to be prepared on a going concern basis.
- ▶ We worked with management to improve the adequacy of some of the disclosures in relation to going concern and the expected medium term financial impact of Covid-19 on the College. We are satisfied with the updated disclosures.

# 3

## Wider Scope dimensions

### Introduction

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the College's arrangements for each of the wider scope audit dimensions applicable to smaller bodies. The application of the smaller body status for the College is in line with the guidance set out by Audit Scotland in its planning guidance. We apply our professional judgement to risk assess and focus our work on each of the dimensions.

### The Wider Scope dimensions

#### Financial Management:

- Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively. This dimension of wider scope work is not usually applicable to smaller bodies, however due to the increased risk around financial management at the College in the circumstances this year we have made the judgement to consider as part of our audit process.

#### Financial Sustainability:

- Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

#### Governance and Transparency:

- Is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

We outlined in our Annual Audit Plan Addendum, presented to management and the Chair of the Audit Committee in November 2020, how our consideration and audit work in respect of the wider scope dimensions would be impacted by Covid-19. Our audit focus in these areas have been undertaken through the lens of Covid-19.

# Financial Sustainability

The financial environment in which the College operates continues to be challenging, and the Covid-19 pandemic has resulted in further, significant financial pressures.

The College prepared a financial forecast return in August 2020 which forecasts an underlying operating surplus position over three years of up to £3.9 million. This includes the forecast benefits from significant savings related to the College's 2020 financial recovery plan, but also recognises significant ongoing risk around future costs.

## The context for financial sustainability in the FE sector

During 2020, the Scottish Funding Council released three reports considering the future of colleges and universities. Most recently in October 2020 the SFC published their review of coherent provision and sustainability which considered how best the SFC can fulfil its mission of securing coherent provision by post-16 education bodies, and the undertaking of research in these changing times. The review covered future provision, delivery, outcomes and targets, funding models and support for research activity across the college and university sector in Scotland.

Specifically, as part of this review, the SFC published their updated analysis of the sector within their report, *The Financial Sustainability of Colleges and Universities in Scotland*. This reflects on the specific financial challenges the sector was facing prior to the impact of Covid-19, including cost pressures from cost of living pay awards, employers' pension contributions, maintaining the college estate and the UK's exit from the European Union, and notes that colleges were already implementing transformation plans to address those challenges. Covid-19 has, in some cases, resulted in the delay of these transformation plans, particularly where they relate to severance and commercial income growth. The main impact of Covid-19 is considered to be felt most by the sector during the 2020/21 financial and academic year.

Recognising the financial challenges facing colleges in the upcoming period, the SFC identified a number of actions to further support colleges including:

- ▶ Targets - SFC will not recover funds for shortfalls against outcome agreement targets where these are related to Covid-19.
- ▶ Capital Funding - £2.3 million of additional funding for colleges has been awarded to support the provision of ICT equipment to help tackle digital poverty. In addition, the SFC announced £6.5 million of additional capital funding to support the economic recovery in 2020/21.
- ▶ Cash advances - SFC has provided flexibility in grant drawdowns to several colleges encountering liquidity challenges.
- ▶ Flexibilities in relation to Flexible Workforce Development Fund, Student Support funds and credits.

Work is underway to consider the full impact of the financial saving requirements outlined in the FFR against the College's strategic objectives.

The context for financial sustainability in the FE sector (continued)

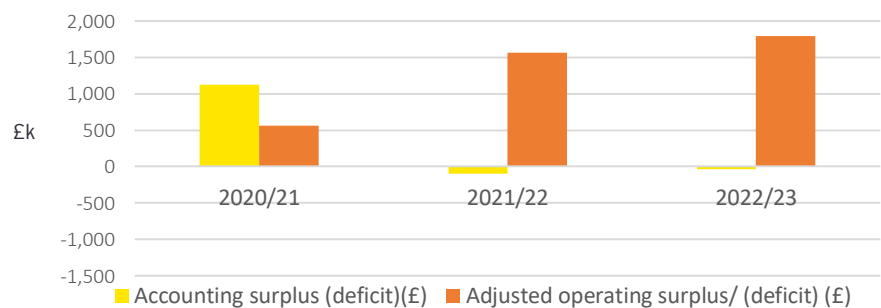
Additional funding is also expected to become available in relation to the Youth Guarantee Scheme (£10 million direct funding for colleges), the transitional training fund and use of the Coronavirus Job Retention Scheme.

In addition to these steps, the SFC is working with the Scottish Government and other stakeholders on a possible Transformation Investment Fund to support colleges to make specific one-off investments to achieve lasting improvement in their financial health.

Medium term financial forecasting

The College has prepared a three-year financial forecast for the period 2020 to 2023 and submitted these to the SFC in the form of the template Financial Forecast Return ('FFR'). The forecast is based on assumptions provided by the SFC in addition to College specific assumptions for areas such as other income and staff numbers. The assumptions have been subject to scrutiny by the College's senior management team and Finance Committee and Board. As Exhibit 1 demonstrates, following the implementation of savings from the financial recovery plan, the College forecasts recurring underlying operating surpluses for the three years of the plan.

**Exhibit 1: The FFR highlights that the College is forecasting an adjusted operating surplus for the three years of the FFR period through to 2022/23.**



Source: Inverness College Financial Forecast Return, June 2020

The College's forecasts recognise significant uncertainty in the current environment. The main risks associated with the forecast income and expenditure in the financial forecast return are:

- ▶ Continued uncertainty around the future impact of Covid-19 on the College's operations.
- ▶ Assumed significant reductions in operating expenditure from 2021-22 as the impact of Covid-19 on costs reduces and the positive impact of cost savings through the financial recovery plan are recognised.
- ▶ Assumed control around staff costs as a result of the impact of the voluntary severance scheme, and increases through recruitment and centrally negotiated pay changes are managed.

### Medium term financial planning going forward

Financial monitoring and forward planning will continue to be vital to the College, in particular in monitoring the ongoing delivery of savings identified through the financial recovery plan.

#### *Recommendation 2*

We outlined in previous years that the College was forecasting significant underlying deficits through 2022/23. Good practice in respect of ensuring financial sustainability for the College would dictate that management has identified how it intends to address this gap across the five year period, in the form of a medium term financial plan. In 2020 management developed and implemented a Financial Recovery Plan (FRP) following Board approval, designed to achieve £1.3 million in net recurring savings through reductions in permanent and contract staff costs and operating contract cost reductions. The largest element of the programme was a voluntary severance scheme at an initial cost of £500,000 designed to save £1.8 million (£1.3 million net) staff costs going forward.

In December 2020 management reported to the Board that £1.6 million of savings had been achieved through the FRP process, mostly through savings related to staff reductions and better control over temporary staff recruitment. The savings identified play a significant role in management's forecast of recurring underlying surpluses going forward through 2023. The Board agreed to conclude the FRP at its December meeting.

Management and the Board has recognised there remains significant risk and uncertainty around College finances. This is in respect of significant external factors such as the impact of Brexit on public spending and the length and continued impact of Covid-19. There are also remaining savings to be achieved by the College, such as the conclusion of the voluntary severance scheme and reorganisation of SMT, as well as a need to rigorously monitor the financial performance of the College to ensure savings are indeed recurrent. Management has recognised the need for more proactive financial planning to ensure the College maintains a financially sustainable position through these risks and uncertainties, and as the College undertakes a full strategic review of its teaching arrangements in 2021.

### Going concern cash flow forecasting

Management should ensure that its cash flow position and forecast for at least the next 12 months is subject to rigorous review on a routine basis.

#### *Recommendation 3*

We have outlined our work in respect of going concern on page 15 of this report. While the College has prepared its financial statements on a going concern basis as required by the FReM for a public body, it is required to consider its ability to meet liabilities as they fall due over the going concern assessment period, being 12 months from the approval of the financial statements.

As part of its financial forecasting arrangements the College has forecast its cash flow at a summary level for the three years of the FFR and at a detailed level through to February 2022. The College forecasts holding cash of at least £3.4 million during this period, however recognises this is subject to significant volatility risk depending on the future impact of Covid-19 on the College's operations. The College has confirmed with the SFC that, should the College require it, it will provide cash flow support in the form of advanced grant payments through this period.

# Financial Management

We are satisfied that the College's financial monitoring and reporting was clear and consistent throughout the year, and that the core financial management arrangements were not materially impacted as a result of Covid-19 and the subsequent lockdown.

We recognise that action has been taken through the year to address issues around previous financial management arrangements. We have noted the risk around the new financial management model and potential capacity pressures on management and the finance team. Progress is still outstanding in respect of Audit Scotland's NFI requirements and review of key accounting models, and we have also noted a number of audit differences, in areas recurring from previous years, in particular around yearend accruals and capital accounting.

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## Financial performance and monitoring

The College reported a deficit of £2.1 million for the year (2018/19: £0.3 million). Following an actuarial loss of £5.7 million, the College reported total comprehensive expenditure of £7.8 million (2018/19: £5.1 million). The College had an operating surplus after removal of non-cash accounting adjustments (relating to pension and capital accounting) of £253,000 (2018/19: £329,000).

The financial performance in 2019/20 was significantly impacted by Covid-19. In particular, tuition fee and other non-SFC income reduced following the College closure in March 2020. This reduction in income was offset by staff savings through the furlough scheme and other savings related to delayed expenditure.

In line with previous years, the College's financial performance was monitored throughout the year by management and the finance and audit committees. This process was not impacted by Covid-19, and there is evidence of financial monitoring, reporting and planning by the Board and relevant committees through the financial year, up to the approval of the 2020/21 budget and its submission to the SFC in June 2020.

Throughout 2019/20 management reported budget pressures and variances through its management accounting. These were significant in the year, however we are satisfied these mostly related to the unforeseen impact and uncertainty around Covid-19 on College operations on the last four months of the financial year.



### Impact of Covid-19 on systems of internal control and financial statements preparation

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

We undertook an initial assessment of the financial control environment as part of our planning work in June 2020, and updated our understanding as part of the yearend audit, in particular to consider the impact of Covid-19 on the financial management environment. Our work has not identified any significant weaknesses in the College's systems of internal control. In particular, we have not identified any significant changes to the design and implementation of controls as a result of the impact of Covid-19 on working arrangements.

In line with previous years, we have noted a number of audit adjustments in areas of technical accounting and judgement, namely the expenditure and income accrued and deferred around the yearend, and the accounting for capital transactions and valuations.

### Joint finance working arrangements and management capacity

During the year management made us aware of new joint working arrangement in place with North Highland College, in particular the shared responsibility of the Director of Finance role across both colleges. We discussed the potential impact this may have on management's capacity at the College. We noted that some mitigating actions had been put in place to reduce pressure on the individuals in other areas of previous responsibility, and that the decision had been subject to clear governance review arrangements.

Overall we have noted that the financial management of the College has improved this year compared to prior years, particularly in respect of the preparation of financial statements and supporting information and readiness for audit, and within the context of the current working environment. There is no indication at this stage of challenges to capacity, however it is important that this arrangement is subject to ongoing review to ensure it does not impact the College's financial management arrangements.

### National Fraud Initiative (NFI)

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The NFI exercise produces data matches by comparing a range of information held on public bodies' systems to identify potential fraud or error. We submitted an assessment of the College's participation in the exercise to Audit Scotland in 2019, noting that the College had not submitted any data as part of the NFI exercise and that the College had significant work to do to embed good practice around NFI arrangements. In February 2020 we noted a number of outstanding areas remained, including submission of data and investigation of matches on data which had been submitted. Management has progressed the submission of data subsequent to this reporting, and is now required to investigate matches identified resulting from the data submission on an ongoing basis.

Management should ensure that the new joint working arrangements in place across Inverness and North Highland college finance functions are subject to a formal review to ensure implementation has not negatively impacted financial management arrangements.

*Recommendation 4*

Progress has been made, however there is still work outstanding for the College finance team to progress actions in respect of involvement in the NFI exercise.

*Recommendation 5*



# Governance and Transparency

The key features of good governance have remained in place at the College and have been operating effectively throughout the Covid-19 lockdown.

The College responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. However, a number of actions remained unimplemented from previous audits.

## Annual Governance Statement

The College has demonstrated through the year that it has the key requirements for good governance. The key aspects of governance arrangements in the year are required to be disclosed in the College's Annual Governance Statement within the financial statements. We reviewed the governance statement within the financial statements against the requirements outlined in the SFC's 2019/20 Accounts Direction and our understanding of governance arrangements in place up to 31 July 2020.

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

- ▶ Ensuring that the College has met all requirements of the SFC's 2019/20 Accounts Direction;
- ▶ Ensuring that the content of the statement is consistent with our understanding of the College's governance arrangements and any issues identified during the year; and
- ▶ Ensuring that the College has performed a self-assessment of compliance with the *Code of Good Governance for Scotland's Colleges* and that this assessment is reflected in the statement.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it is materially consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the *Code of Good Governance for Scotland's Colleges*. We identified a number of suggested amendments required to the governance statement disclosures, in particular in respect of how governance arrangements were maintained during the revised operating period of Covid-19, and clearly identifying and explaining areas of non-compliance with the Code of Good Governance as a result of Covid-19. We worked with management to update the disclosures in the governance statement accordingly. Management has noted that due to the impact of Covid-19 it has not been able to implement the recommendation from last year around development of a more formal assessment of compliance.

In line with previous years we continue to recommend the College formalises its assessment of compliance with the Code and good practice consideration around governance statement disclosures.

### Recommendation 6

Governance arrangements were quickly developed to ensure that the College was kept informed of the impact of Covid-19. We were therefore satisfied that Board members had sufficient information to continue to fulfil their role.

### **Covid-19 Governance Arrangements**

Like all other public bodies in Scotland, the College moved to revised governance arrangements at the beginning of the UK lockdown period. Board meetings and other committee meetings scheduled from April 2020 continued via remote working arrangements, and all relevant business continued to be considered as required, with the exception of the remuneration committee not being able to meet at the previously scheduled date, which is in the process of being mitigated.

Risks associated with the pandemic have also been considered by the Board through an updated risk register, which has been considered by the Audit Committee in the year. We are satisfied that key information continues to be disseminated to the Board and other committees on a timely basis.

### **Enquiries of those charged with governance**

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

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit Committee. For 2019/20, the internal auditor's opinion notes that, 'Inverness College has reasonable and effective risk management, control and governance processes in place.' The internal auditors have noted that they were not able to complete all planned internal audit work in the year due to the Covid-19 pandemic, however this has not impacted their opinion.

### **National Reports**

It is important that the College has embedded arrangements to ensure that consideration is appropriately given to national reports published by Audit Scotland. At present, national reports are reviewed by management and the impact on the College is considered. These will be presented to the Board or relevant committee where necessary.

The most recent reports considered include the SFC's *Review of Coherent Provision and Sustainability*. Management has confirmed this will be issued to the Finance Committee and considered at the next meeting.

The externally facilitated review of Board effectiveness should be completed at the first reasonable opportunity. All recommendations should be agreed with a detailed action plan, including timeframes for implementation.

*Recommendation 7*

### External effectiveness review

All colleges are required to undertake an external effectiveness review (EER) at least every 3 years, in accordance with the *Code of Good Governance for Scotland's Colleges*. In previous years we have raised the limited progress around implementing recommendations from previous reviews. The College has noted that due to Covid-19 it has not been able to undertake an externally facilitated review this year, and plans to address this going forward in early 2021. This has been accordingly disclosed as an area of non-compliance with the Code of Good Governance in the Annual Governance Statement.

### EU withdrawal

There continues to be a significant interest in public bodies' preparedness for EU withdrawal. We are aware that management has continued to consider and monitor the arrangements and risks around the UK's departure from the EU. The College is aware that there continues to be a potential for disruption to operations and costs arising from Brexit and continues to review any new information and guidance provided by bodies such as Scottish Government and the SFC as it is published. Management is confident at this stage that the College is mitigated from the immediate direct impacts of Brexit on its operations and funding.

### Voluntary Severance Scheme

During 2019/20, the College accounted for payments of £167,000 for 12 individuals who left the College under the approved voluntary severance agreements. We confirmed that the College had followed the procedures outlined within SFC's guidance for seeking approval for severance schemes and settlement agreements.

# 4

## Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit and risk committee

D - Audit differences identified during the audit

E - Audit recommendations identified throughout the audit

F - Follow up of prior year recommendations

G - Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

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

### Financial Statements and related reports

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

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

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

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

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

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

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

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

# Appendix B: Independence and audit quality

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

## Matters that we are required to communicate

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

There are no relationships from 1 August 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated May 2020.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the College consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee in November 2020.

## Audit Fees

	2019/20	2018/19
<b>Component of fee:</b>		
Auditor remuneration - expected fee	£16,360	£14,370
Additional audit procedures (see below)	£8,000	£10,413
Audit Scotland fixed charges:		
Pooled costs	£940	£920
Contribution to Audit Scotland costs	£890	£800
<b>Total fee</b>	<b>£26,190</b>	<b>£26,503</b>

The expected fee for each body is set centrally by Audit Scotland, and assumes that it 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. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

The 2019/20 audit required additional audit procedures to address; the need for a reassessment of all audit risks, the additional scrutiny around the College's response to and financial statement disclosures around the direct and indirect consequences of Covid-19, including going concern and financial sustainability and financial management, and additional audit specialist and manager work around the valuation of the College's fixed assets and share in the Highland Council Pension fund. As a result of these exceptional areas of additional work, we have agreed the updated fee with management as outlined above.

### Matters that we are required to communicate

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

The EY 2020 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020). This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

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

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

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

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

### Audit Quality Framework / Annual Audit Quality Report

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

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

The most recent audit quality report which covers our work at the College since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920>.



# Appendix C: Required communications

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



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

# Appendix D: Errors identified during the audit - adjusted

This Appendix sets out the significant adjustments processed in the financial statements finalisation.

Adjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Job evaluation scheme - recognition of funding to be received for 2019/20</i>	CR SFC Income £315,000		DR Accrued income £315,000
2	<i>Job evaluation scheme - recognition of costs associated for 2019/20</i>	DR Staff costs £315,000		CR Accruals £315,000
3	<i>Adjustment relating to pension scheme asset valuation at 31 July 20</i>		CR Actuarial loss £172,000	DR Pension Assets £172,000
4	<i>Accounting for McCloud judgement in LGPS pension valuation</i>		DR Actuarial loss £238,000	CR Pension Liability £238,000
5	<i>Deferral of SFC capital grants</i>	DR Capital Grants £50,300		CR Deferred Capital Grants £50,300

# Appendix D: Errors identified during the audit - unadjusted

This Appendix sets out the significant unadjusted audit differences identified during the audit.

Unadjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	Adjustment relating to IT costs accrual	CR Expenditure £50,000		DR Accruals £50,000
2	Adjustment relating to holiday pay accrual	DR Expenditure £68,000		CR Accruals £68,000

# Appendix E: Audit recommendations

This action plan summarises specific recommendations included within the 2020 Inverness College Annual Audit Report. We have graded these findings according to our consideration of their priority for the College or management to action.

## Classification of recommendations

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

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

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

No.	Findings	Recommendation	Management response / Implementation timeframe
1	From 2016/17 we have recommended to management that it review the model and accounting treatment to ensure it continues to meet the requirements of FRS 102. This was specifically in respect of whether the model should contain contingent rent. This process has yet to be fully implemented.	Management should ensure that its review of the NPD model and accounting treatment is completed as quickly as practically possible at this stage.  <i>Grade 2</i>	Response: Discussed with E & Y and agreed that some progress is needed on reviewing the agreement and E & Y's recommendations  Responsible officer: Director of Finance  Implementation timeframe: 31 August 21
2	Management has recognised the need for proactive financial planning going forward to ensure the College maintains a financially sustainable position through these risks and uncertainties, and as the College undertakes a full strategic review of its teaching arrangements in 2021.	Financial monitoring and forward planning will continue to be vital to the College, in particular in monitoring the ongoing delivery of savings identified through the financial recovery plan.  <i>Grade 2</i>	Response: Draft Finance Strategy up to 31 July 24 document has been prepared; Finance monitoring at a top level has been revised in terms of presentation to Committee. Planned to spend near five months on budgeting for 21-22 and align curriculum planning more with budget process  Responsible officer: Director of Finance  Implementation timeframe: 31 July 21

# Appendix E: Audit recommendations

This action plan summarises specific recommendations included within the 2020 Inverness College Annual Audit Report. We have graded these findings according to our consideration of their priority for the College or management to action.

## Classification of recommendations

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

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

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

No.	Findings	Recommendation	Management response / Implementation timeframe
3	As part of its financial forecasting arrangements the College has forecast its cash flow at a summary level for the three years of the FFR and at a detailed level through to February 2022. The College forecasts holding cash of at least £3.4 million during this period, however recognises this is subject to significant volatility risk depending on the future impact of Covid-19 on the College's operations.	Management should ensure that its cash flow position and forecast for at least the next 12 months is subject to rigorous review on a routine basis. <i>Grade 2</i>	Response: Monitoring to 21 January 21 shows an improving position. Also there is work across the partnership on efficiency/income agenda of £20 million  Responsible officer: Director of Finance  Implementation timeframe: over the year to 28 February 2022
4	During the year management made us aware of the new joint working arrangement in place with Inverness College, in particular the shared responsibility for the Director of Finance role across both Colleges. <i>Grade 2</i>	It is important that, particularly in the context of the additional pressures placed on management during this Covid-19 period, this arrangement is subject to ongoing review to ensure it does not impact the College's financial management arrangements. <i>Grade 2</i>	Response: for Board review  Responsible officer: Chairs and Principals  Implementation timeframe: over the coming year
5	Progress has been made, however there is still work outstanding for the College finance team to progress actions in respect of involvement in the NFI exercise.	Management should ensure the College finance team is able to comply with relevant timetables and good practice in respect of NFI requirements going forward. <i>Grade 2</i>	Response: Staff cost data and purchase (supplier) data was sent. Matching needs progress including other departments  Responsible officer: Finance Manager and HR staff assisting with managers  Implementation timeframe: On-going

## Appendix E: Audit recommendations (continued)

No.	Findings	Recommendation	Management response / Implementation timeframe
6	Management has noted that due to the impact of Covid-19 it has not been able to implement the recommendation from last year around development of a more formal assessment of compliance.	In line with previous years we continue to recommend the College formalises its assessment of compliance with the Code and good practice consideration around governance statement disclosures.  <i>Grade 2</i>	Response: The Board of Management have carried out a review against the Code of Governance in January 2021. From this an action plan has been drafted and will be discussed at the Board of Management meeting on 18 February.  Responsible officer: Board of Management  Implementation timeframe: February 2021
7	The College has noted that due to Covid-19 it has not been able to undertake an externally facilitated review this year, and plans to address this going forward in early 2021. This has been accordingly disclosed as an area of non-compliance with the Code of Good Governance in the Governance Statement.	The externally facilitated review of Board effectiveness should be completed at the first reasonable opportunity. All recommendations should be agreed to a detailed action plan, including timeframes for implementation.  <i>Grade 2</i>	Response: The External Effectiveness Review has been undertaken and feedback is due to be given by the facilitator on 28 January during the Board Away Day Workshop. Following this a working group will be set up (this will involve Secretary to the Board of Management as Board Secretary and three members of the BOM) to review the recommendations and the group will ensure that an action plan and timeframe for implementation of these actions are available for approval at the Board of Management meeting on 1st April 2021.  Responsible officer: Board of Management  Implementation timeframe: April 2021

# Appendix F: Prior Year Action Plan

This action plan summarises specific recommendations included within the 2019 Inverness College Annual Audit Report and the latest status in respect of management's agreed actions.

Classification of recommendations		
No.	Prior year recommendation	Current status
1	<p>The College should conduct a formal impact assessment on the implementation of the revised SORP.</p> <p style="text-align: right;"><i>Grade 3</i></p>	Management did not provide a formal impact assessment as part of the preparation of the 2019/20 financial statements. It is important going forward that management has a robust process for considering and implementing required changes to the financial statements.
2	<p>Management should ensure it annually reviews the NPD accounting model to consider the key assumptions, and in particular whether the model should incorporate contingent rent.</p> <p style="text-align: right;"><i>Grade 2</i></p>	The review of the NPD model has not been completed at the time of writing this report. Management intends to complete the review in early 2021. See reporting and recommendation on page 15 for more information.
3	<p>The College should continue to focus on enhancement to its financial management arrangements, in particular with regards to a robust financial statement preparation and quality assurance process.</p> <p style="text-align: right;"><i>Grade 1</i></p>	We have outlined the status of current financial management arrangements, including progress in the year against recommendations, on pages 21-23 of this report.
4	<p>The College should continue to regularly monitor its forecast position, including delivery of its required savings, and its cash position and future forecast.</p> <p style="text-align: right;"><i>Grade 1</i></p>	We have outlined our work around financial sustainability at the College, including progress in the year cost reduction plans, on pages 17-20 of this report.
5	<p>Management should ensure that they formalise their assessment around governance statement compliance and ensuring required information is published on a timely basis on the College website.</p> <p style="text-align: right;"><i>Grade 2</i></p>	We have outlined our work around governance arrangements at the College, including progress made by management against prior year open recommendations, on pages 22-24 of this report.
6	<p>The College should ensure it takes steps to participate in full in future NFI exercises, and ensures it considers the outputs and recommendations from this year's exercise to improve its own internal control arrangements.</p> <p style="text-align: right;"><i>Grade 2</i></p>	Progress has been made, however there is still work outstanding for the College finance team to progress actions in respect of involvement in the NFI exercise.

# Appendix G: Timing and deliverables of the audit Item 05c

We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle.

	Audit Activity	Deliverable	Timing
FEB			
MAR	▶ Review progress of NFI exercise	Submit NFI Questionnaire	28 February 2020
APR			
MAY	▶ Audit planning and setting scope and strategy for the 2019/20 audit	Annual Audit Plan	April/May 2020
JUN	▶ Walkthrough Visit	Completion of internal documentation	June 2020
SEP			
OCT	▶ Year-end substantive audit fieldwork on unaudited financial statements	Audited Financial Statements	November 2020 - January 2021
NOV			
DEC	▶ Conclude on results of audit procedures	Issue Annual Audit Report	February 2021
JAN			
FEB	▶ Issue opinion on the College's financial statements	Submit Audit Scotland minimum dataset request	February 2021



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EH3 8EX

27 January 2021

Dear Sirs,

**External audit: Year ending 31 July 2020**

As per your letter dated 01 October 2020 we note that auditing standards require you to formally update your understanding of Inverness College's arrangements for oversight of management processes and arrangements annually. The undernoted is our response to your questions contained within your letter dated 01 October 2020.

1. *How does the Audit Committee, as 'those charged with governance' at Inverness College ("The College"), exercise oversight of management's processes in relation to: undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);*

- The College maintains a risk register that is subject to ongoing review and risk assessment by the Audit Committee on a regular (generally quarterly) basis.
- Internal auditors are appointed and the Audit Committee agrees with them an internal audit plan for each year of their appointment covering a range of areas of the College's business, with input from other relevant Board Committees as to audit scope. The Audit Committee receives reports from the internal auditors on each area of internal audit (e.g. cash handling), highlighting any outstanding actions or non-compliance issues, usually with a risk rating, and their recommendations. The Audit Committee expects its Finance Director to deal with the year-end accounting process in a way that adheres to standards and ethics and to oversee and manage the College's finance and accounting staff; and SMT to assess and manage such risks more broadly and to report any concerns to the Committee. It expects the internal auditors and external auditors to approach it if they have any concerns.
- Audit Committee has open dialogue with SMT at quarterly meetings, seeking reassurance on matters such as sufficiency of finance and accounting resources and systems.

*Identifying and responding to risks of fraud in the College, including any specific risks of fraud which management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;*

- Both internal and external auditors are contracted to provide services which includes looking at a wide range of audit activities across various aspects of the College, including these areas.
- The Audit Committee pursues and monitors implementation of outstanding recommendations through internal reporting by the College's Finance Director and other members of its senior management team ("SMT") at quarterly meetings of the Audit Committee including e.g. steps being undertaken to comply with the National Fraud Initiative. The College has now submitted both staff and purchase data in compliance with National Fraud Initiative requests.

- The Finance and General Purposes Committee of BOM also has oversight of financial information and reports presented to it by the SMT at regular quarterly meetings and would be expected to raise with Audit Committee any concerns.

*Communicating to employees its view on business practice and ethical behaviour, for example by updating, communicating and monitoring against the College's code of conduct;*

- The Board of Management (BOM) has been open and accountable and this process includes the Chair and members of the Audit Committee. The Audit Committee takes a view before the academic year starts as to which areas of business practice and ethical behavior it wishes to internally audit. It scopes out those audit areas with input from relevant Board Committees and conducts the process through its appointed auditors. There have been drop-in sessions where employees have been present and able to have discussions with the Principal. The Principal reports back to the BOM with a summary of these sessions which he hosts, and this includes highlighting employees' views on strategic and operational matters in progress. The outcome of all reviews are communicated to stakeholders by the Board directly via publication of the findings and to the employees by the executive functions and roles with that delegated responsibility. If there was a problem with any financial issue, it would be hoped that any staff member could approach a committee chair or member and raise an issue without undue concern. In terms of updating the timetable of reviews in this regard the Audit Committee and BOM works alongside the Quality Team. Additionally, the website includes regular updates and details of committee membership, agendas and minutes. This allows all staff and members of the public to clearly follow discussions on BOM and Audit Committee matters.

*Encouraging employees to report their concerns about fraud;*

- The Committee and the Board of Management generally have encouraged openness with staff as much as possible, and also encourage drop-in sessions. The College has a "Whistleblowing" Policy in place and any employee with concerns is actively encouraged to report them. SMT reports to the Audit Committee on updates to relevant policies and procedures.

*Communicating the processes for identifying and responding to fraud or error?*

- The Audit Committee receives reports from the Finance Director and other members of SMT (generally including updates on risk register review) at quarterly meetings of the Audit Committee and monitors actions taken to address outstanding internal audit recommendations through such internal reporting. The Committee would expect SMT or internal audit reports to highlight any deficiencies in relation to processes for identifying and responding to fraud or error and SMT to report on steps taken to address those. If the SMT or the Committee had any specific concerns on processes for identifying or responding to fraud and error, then both internal and external auditors would be advised as soon as practically possible.

2. *How does the Audit Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?*

- This is done by having a Senior Management Team in place who are aware of the need for appropriate processes and procedures and advising the Committee of any breaches. There are also internal auditors appointed who also are expected to contribute to this area and advise the Committee of any breaches that they suspect may have occurred.

Audit Committee monitors actions taken to address outstanding internal audit

recommendations through reports from the Finance Director and other members of SMT at quarterly meetings of the Audit Committee.

3. *Have there been any significant changes in the design and/or operating effectiveness of management controls as a result of the Coronavirus outbreak*

- Management and staff have had to adapt to home working, and management of departments and service delivered remotely. Generally, this has worked well. For example, despite working from home, the Finance department has paid staff and suppliers and raised fees and invoices. It is also monitoring the College finances and has produced a set of year end accounts and budgets. Other support functions e.g. HR, Admissions, Registry and Student support are also being delivered by staff working from home. Management has effectively been delivered through e-mails and VC meetings. Some practical teaching has been done on site e.g. Engineering, Construction. Controls have had to change in some measure e.g. storing and approving invoices electronically and digital approvals.
- Audit Committee and BOM have been appraised of ongoing risk assessments and changes in management controls by SMT as a result of the Coronavirus outbreak e.g. to address issues such as restricting access to and use of premises by staff and students, social distancing, homeworking, increased online delivery of services, and students' and staff wellbeing.
- Internal auditors are also expected to address the impact of Coronavirus in course of internal audits and instructed to carry out additional audits including e.g. on Covid 19 Quality and Assessment and Covid 19 Health and Safety.

4. *How do those charged with governance assure themselves that the furloughing of staff has not adversely impacted the segregation of duties?*

- The Committee has been advised that some staff have been furloughed following an assessment made by senior management e.g. refectory. The Committee is not aware of any issues of risk of segregation of duties being compromised. The Committee considers that the management is assessing and furloughing as appropriate after due consideration of any potential impact.

5. *Is the Audit Committee aware of any:*

*Breaches of, or deficiencies in internal control; and*

- The Audit Committee is not aware of any material breach or deficiencies.

*Actual, suspected or alleged frauds during 2019/20?*

- The Audit Committee is not aware of any actual, suspected or alleged frauds.

6. *Is the Audit Committee aware of any organisational or management pressure to meet financial or operating targets?*

- The current operating environment, public sector funding constraints and the Coronavirus outbreak inevitably put pressure on both the College as an organisation and its management to meet financial and operating targets, as on all institutions in the further and

higher education sector.

- The Audit Committee and BOM has had open dialogue with management about financial pressures and steps taken as soon as possible to address those by undertaking a Financial Recovery Plan during the year ending 31 July 2020. The Audit Committee has also been kept updated on the College's progress regarding the Financial Recovery Plan undertaken and together with the Finance and General Purposes Committee continues to monitor the process (and format) of financial reporting by management to BOM and its committees.
  - By regular management reporting, the Audit Committee is made aware of the College hitting or not academic targets. It is also made aware of management's efforts to ensure the College's finances are sound, including on-going reviews of curriculum and support services in response to challenges as they arise. The management team leads on this, reporting to the Audit Committee at its quarterly meetings.
7. *How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2019/20?*
- The Audit Committee is served by having internal and external auditors reporting to it. Also Senior Management have responsibilities to ensure relevant laws and regulations are complied with, and provide assurance through regular management reports presented to the Audit Committee at its quarterly meetings. There are also external professional service providers that assist the College including: VAT specialists e.g. review the College's Partial Exemption Calculation and provide VAT advice on issues; and lawyers who provide the College with legal advice on various issues. Health and Safety has been reviewed by Internal Audit who expressed some concerns on administration of Risk Assessments – these assessments are compliant, but the process is being addressed. However Covid 19 Health and Safety has taken priorities this past nine months.
8. *Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?*
- The Audit Committee is aware that there has been an Arbitration decision on a water claim raised by Galliford Try Facilities Management ("GTFM") which built the College's main Beechwood Campus. Management report that an adjudication decision found the College responsible for a delay in submitting an application for a water link up; however, it was not found liable for any financial implications to the contractor, GTFM; and that GTFM has a right of appeal up till the end of February 2021.
9. *How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?*
- Management's draft monitoring projections to 31 July 21 appear to show the College will deliver a cash surplus, on top of a satisfactory financial position in 2019-20, thus indicating that liquidity is sound, and is projected to improve in the period up to 31 July 21. Management reports also indicate that there is over £3 million in cash and that the College is likely to be able to meet its debts as they fall due within the twelve months from 31 July 2020 to 31 July 2021.

10. *Has management considered the impact of the coronavirus outbreak as part of their going concern assessment, including:*
- ▶ *any changes in underlying assumptions*
  - ▶ *additional or potential financial difficulties, impairments or write-offs*
- Yes – in outturn projections it is assumed that Refectory income is negligible; and projections for commercial income and Apprentice funding have been reduced to lower levels as compared to non-Covid environment. The most recent Budget Monitoring to 31 January 2021 and projecting forward have included various assumptions on income including anticipated effect of Covid 19.
11. *How does the Audit Committee satisfy itself that the College has arrangements to ensure compliance with the Scottish Funding Council's ("SFC") Accounts Direction and Financial Memorandum?*
- The Audit Committee expects the College's Finance Director to ensure compliance. The Audit Committee understands that monthly cash flow information is submitted to the SFC by the Finance Director; and an annual Financial Forecast Return is also sent to the SFC which is reviewed and approved by the Finance and General Purposes Committee. There is also a year-end certificate which is signed by the Principal. Again, if internal or external auditors discovered major breaches, then the Committee would expect them to be reported.
  - An annual Budget is presented by Management to BOM and financial performance is also monitored through regular reporting to the Finance and General Purposes Committee which meets quarterly.
12. *How does the Audit Committee satisfy itself that the College has arrangements to ensure compliance with its requirements as an independent charity as set out by OSCR?*
- BOM members and SMT are aware of the charitable status of the College. The College submits annual returns to OSCR and also its annual financial statements. The Committee is not aware of any issues of non-compliance being raised by OSCR.
13. *How does the Audit Committee satisfy itself that the College has arrangements to monitor and maintain the regularity of income and expenditure?*
- Income and Expenditure information is reported quarterly to the Finance and General Purposes Committee.
14. *What does the Audit Committee consider to be the related parties that are significant to the College and what is its understanding of the relationships and transactions with those related parties?*
- It is expected that each BOM member will disclose any potential conflicts of interest that arise concerning the College's business. A register of interests is available on our website and this is kept up-to-date. At the start of each meeting of BOM or any of its committees' members are asked to declare any interest which they may have in respect of items on the agenda.

- Other parties with whom the College has significant contractual relationships in respect of the delivery of further and higher education are The University of the Highlands and Islands (“UHI”) and its other “Academic Partner” independent colleges. The College delivers further and higher education on behalf of UHI and in conjunction with other colleges in Highlands and Islands; and UHI is the regional strategic body responsible for planning, monitoring and funding of further education in the Highlands and Islands. The College is not considered to be a subsidiary of UHI.
15. *Does the Audit Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?*
- Although the College is not a subsidiary of UHI, as an “Academic Partner” of UHI, the aim of which is to provide tertiary education (from post-16 to post-graduate level) across the Highlands & Islands region, the College relies upon UHI to provide much of its funding and other support including e.g. shared services; and upon UHI’s other Academic Partners to perform their obligations to the UHI network including e.g. in collaborating on delivery of courses and services; thereby exposing the College to a degree of risk that is outwith the control of the College, raising concerns as to the potential impact upon the College of certain risks at UHI level, including e.g. decisions made by UHI as regards funding allocations and in respect of financial sustainability of UHI and its other Academic Partners, particularly given the impact upon the sector of Covid 19.

*Yours faithfully,*

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(Principal)

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(Chief Financial Officer/Finance Director)

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(Chairperson of the Audit Committee)



## Board of Management

<b>Subject/Title:</b>	Annual Audit Committee report to the Board of Management 2019-20
<b>Author:</b> [Name and Job title]	Lisa Ross, Board Secretary
<b>Meeting:</b>	Board of Management
<b>Meeting Date:</b>	18 February 2021
<b>Date Paper prepared:</b>	19 January 2021
<b>Brief Summary of the paper:</b>	This report highlights the membership of the Audit Committee, meetings held, those attending and the key reports presented during 2019-20. This includes both the work carried out by the Internal Auditor BDO for 2019/20, and the External Auditor Ernst & Young for the audit of the 2018/19 financial statements. Other key areas of the work of the committee are highlighted, specifically risk management, health and safety and approval of policies relevant to the terms of reference of the Committee.
<b>Action requested:</b> [Approval, recommendation, discussion, noting]	Approval of this report which was recommended by the Audit Committee at the Joint Audit & F&GP Committee Meeting held on 27 January 2021.
<b>Link to Strategy:</b> Please highlight how the paper links to, or assists with:: <ul style="list-style-type: none"> <li>• compliance</li> <li>• partnership services</li> <li>• risk management</li> <li>• strategic plan</li> <li>• new opportunity/change</li> </ul>	<p>The Audit Committee is required, in accordance with Scottish Funding Council guidance to report annually to the Board of management.</p> <p>The report relates to the discussions and actions in relation to risk management</p> <p>Linked to Opportunity and Growth in Sustainability within the strategic plan, specifically managing our risks</p>
<b>Resource implications:</b>	Not directly, but indirectly in relation to the management of risk
<b>Risk implications:</b>	<p>Yes</p> <p>Operational: as outlined in the Risk register</p> <p>Organisational: as outlined in the Risk register</p>
<b>Equality and Diversity implications:</b>	N/A
<b>Consultation:</b> [staff, students, UHI & Partners, External] and provide detail	No consultation carried out – report is a statement of work carried out by the Audit Committee throughout 2019-20



## ITEM 06

<b>Status</b> – [Confidential/Non confidential]	Non-Confidential		
<b>Freedom of Information</b> Can this paper be included in “open” business* [Yes/No]	Yes		
*If a paper should <b>not</b> be included within “open” business, please highlight below the reason.			
Its disclosure would substantially prejudice a programme of research (S27)		Its disclosure would substantially prejudice the effective conduct of public affairs (S30)	
Its disclosure would substantially prejudice the commercial interests of any person or organisation (S33)		Its disclosure would constitute a breach of confidence actionable in court (S36)	
Its disclosure would constitute a breach of the Data Protection Act (S38)		Other (please give further details)	
For how long must the paper be withheld? (express either as the time which needs to pass or a condition which needs to be met.)			

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

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

[http://www.itspublicknowledge.info/web/FILES/Public\\_Interest\\_Test.pdf](http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf)

## Annual Audit Committee Annual Report to the Board of Management

<b>Title</b>	Inverness College UHI Audit Committee Annual Report 2019-20
<b>Introduction</b>	The Audit Committee is required, in accordance with Scottish Funding Council guidance to report annually to the Board of Management. This report covers the work of the Audit Committee during the 2019-20 Academic Year.
<b>Membership</b>	<p>The Membership of the Committee during the 2019-20 academic year was as follows:-</p> <p>Hazel Allen, Chair  Jaci Douglas, Vice chair  Sarah Burton  Innis Montgomery  Fiona Neilson  Steve Walsh  Sally Blyth  Samantha Cribb</p>
<b>Meetings</b>	<p>4 meetings were held throughout the year and the attendance was as follows:-</p> <p><b>17 September 2019</b>  Hazel Allen, Sarah Burton, Jaci Douglas, Fiona Neilson (Hazel Allen chaired this meeting)</p> <p><b>26 November 2019</b>  Hazel Allen, Sarah Burton, Jaci Douglas, Innis Montgomery (Hazel Allen chaired this meeting)</p> <p><b>10 March 2020</b>  Jaci Douglas, Innis Montgomery, Fiona Neilson, Sally Blyth (Jaci Douglas chaired this meeting)</p> <p><b>02 June 2020</b>  Hazel Allen, Fiona Neilson, Innis Montgomery, Samantha Cribb, Sally Blyth (Hazel Allen chaired this meeting)</p> <p>The internal auditors, BDO, attended all four meetings in 2019-20. Ernst &amp; Young attended the meetings in November 2019 and June 2020.</p> <p>The Director of Finance attended the September 2019, November 2019 and June 2020 meetings.</p>

	<p>The Principal attended every meeting as did the Director of Organisational Development.</p> <p>The Depute Principal (Planning and Student Experience) attended the March 2020 meeting.</p>																																	
<b>Terms of Reference</b>	The terms of Reference were reviewed in May 2019 by the Audit Committee and are due for further review in May 2021.																																	
<b>Internal Audit</b>	<p><b>Provider</b></p> <p>The Internal Auditors are BDO. They were appointed for the three year period 2017-2020 at a cost of £60,480.</p> <p><b>Audit committee assessment of performance</b></p> <p>The annual review of the performance of BDO was discussed at the meeting held on 2<sup>nd</sup> June 2020. Whereby it was noted that the Annual Review of Internal Auditors performance is usually completed with the Finance Director. As the recently departed Interim Finance Director had the most involvement with BDO it was agreed that the Chair would arrange to meet with the Interim Finance Director to complete the annual review out with the meeting and bring back their thoughts for discussion at the September 2020 meeting.</p> <p><b>Review of internal audit plan</b></p> <p>The Internal Audit Strategy 2017-2020 set out the programme of audits to be undertaken in each of the three years from 2017. The rationale for the inclusion of particular reviews was based on the Auditors initial review of the Colleges risk register, discussions with a number of key stakeholders and consideration of various documents, publications and information sources.</p> <p>Eight internal audit reviews and the follow up review were undertaken during 2019-20. Three of the eight are regulatory reviews, these being the Student Support Funds, FES Return and EMA. The outcomes of all reviews has been presented to and discussed by Audit Committee. The initial conclusion is reflected in the summary table below and is not expected to change.</p> <p>The plan was based on the proposed allocation of days for set out in the 2019-20 operational plan. There was no change in the time spent – Planned v budget. 41 days’ work was undertaken.</p> <p><b>Summary of Internal Audit reports 2019-20</b></p> <table> <tr> <th rowspan="2"></th><th colspan="5">Overall Report Conclusions – see appendix I</th></tr> <tr> <th>RED</th><th>AMBER</th><th>GREEN</th><th>Design</th><th>Operational Effectiveness</th></tr> <tr> <td><b>Student Support Funds</b></td><td>0</td><td>0</td><td>0</td><td>n/a</td><td>n/a</td></tr> <tr> <td><b>Education Maintenance Allowance</b></td><td>0</td><td>0</td><td>0</td><td>n/a</td><td>n/a</td></tr> <tr> <td><b>FES Return</b></td><td>0</td><td>0</td><td>1</td><td>n/a</td><td>n/a</td></tr> </table>						Overall Report Conclusions – see appendix I					RED	AMBER	GREEN	Design	Operational Effectiveness	<b>Student Support Funds</b>	0	0	0	n/a	n/a	<b>Education Maintenance Allowance</b>	0	0	0	n/a	n/a	<b>FES Return</b>	0	0	1	n/a	n/a
	Overall Report Conclusions – see appendix I																																	
	RED	AMBER	GREEN	Design	Operational Effectiveness																													
<b>Student Support Funds</b>	0	0	0	n/a	n/a																													
<b>Education Maintenance Allowance</b>	0	0	0	n/a	n/a																													
<b>FES Return</b>	0	0	1	n/a	n/a																													

## ITEM 06

Business Planning and Performance Management	0	1	1	Moderate	Moderate
Cash Handling	0	2	2	Moderate	Moderate
Health and Safety	0	6	1	Limited	Limited
Estates Management	0	2	1	Moderate	Moderate
Marketing and Communication	0	2	2	Moderate	Moderate
Follow Up	n/a	n/a	n/a	n/a	n/a

Overall gradings were defined as follows

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial (GREEN)</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate (BLUE)</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.

## ITEM 06

<b>Limited (AMBER)</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No (RED)</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

### Recommendation Significance

<b>High (RED)</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium (AMBER)</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low (GREEN)</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

### Audit reports

#### Summary of Recommendations made

High	0
Medium	13
Low	8
<b>Total number of recommendations:</b>	<b>21</b>

The Committee made specific comments on reports as follows:-

#### **FES**

- BDO were asked to clarify a statement within the FES return regarding fundable student numbers and agreed to do that.

#### **Business Planning and Performance Management**

- A meeting was requested by the Depute Principal Planning and Student Experience to clarify some of the findings and recommendations from the audit.

#### **Health and Safety**

The Committee noted the expected completion date of January 21 of the audit which begun in March 2020 and a discussion over whether this was a feasible deadline took place which highlighted:

- Proposed change of system - discussions have been held within the Partnership with regards a common system but this has now been rejected due to the cost which means we may have to consider a possible extension to the SHE contract.
- The impact of Covid-19 and access to the building.
- Liability – whether VDE checks are being carried out by staff at home.
- Record keeping and whether staff are fully engaging with processes.
- Training available on Safetyhub and whether this is being used and properly monitored.
- That focus remains on all Health and Safety issues – not just those affected by Covid-19. It was AGREED that this issue will be revisited at the next meeting for further discussion.
- Fire Evacuation plans and Fire Marshalls.

#### **Estates**

The Committee noted that the Estates Dept. are now involved in their budget setting and an update of their spend will be taken to the next meeting for discussion. Additional funding has been allocated from SFC with regards Covid compliance.

	<p><b>Closed Meeting</b></p> <p>The Chair of the Audit Committee and the Director of Finance held a closed session with the Internal Auditors during April/May 2020 to discuss concerns which had been raised by SMT. A further meeting was due to be held with the Chair of the Audit Committee in June 2020 to agree timings for the 2020/21 audits but this did not take place.</p> <p><b>Overall opinion of risk management, control and governance arrangements</b></p> <p>It was the opinion of BDO that “based on the reviews undertaken during the period, and in the context of materiality:</p> <ul style="list-style-type: none"> <li>• In four of the five assurance audits performed, the risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements. Based on our verification reviews and sample testing, the risk management, control and governance arrangements in these four areas were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review.</li> <li>• However, our review of Health &amp; Safety identified that further work was required to ensure robust processes. As such, we are not able to provide reasonable assurance based on our verification review and sample testing, that risk management, control and governance arrangements were designed and operating with sufficient effectiveness in this area to provide reasonable assurance that the related risk management, control and governance objectives were achieved for the period under review.</li> <li>• In addition, we were not able to gain assurance that management were taking sufficient action to implement previously agreed recommendations and make improvements to the control environment.</li> </ul>
<p><b>External audit</b></p>	<p><b>Ernst &amp; Young</b></p> <p>Ernst &amp; Young completed their audit of the accounts for the year ending 31 July 2019. This was the third report by Ernst &amp; Young who had been appointed by the Auditor General for Scotland as the external auditor for the financial years 2016/17 to 2020/21. The fee for the 2018-19 audit was £26,503.</p> <p>These accounts were submitted to and approved by the Board of Management on 17 December 2019. Ernst and Young’s independent auditor’s report provided an unqualified opinion that the financial statements</p> <p>Ernst and Young’s independent auditor’s report provided an unqualified opinion that the financial statements</p> <ul style="list-style-type: none"> <li>• gave a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council (SFC) of the state of the affairs of the College and Group as at 31 July 2019 and of its surplus for the year then ended;</li> <li>• had been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and</li> </ul>

## ITEM 06

	<ul style="list-style-type: none"> <li>had been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).</li> </ul> <p><b>Audit committee assessment of performance</b></p> <p>The annual review of the performance of EY for the year 2019/20 was scheduled to take place in February 2020 however this has not yet been undertaken.</p> <p><b>Closed Meeting</b></p> <p>It is proposed that the Audit Committee will have a closed session with the External Auditors following the Audit Committee being held on 09 March 2021.</p> <p><b>Audit of annual accounts 2020-21</b></p> <p>EY has carried out the Audit of the Annual Accounts for 2019-20 and this forms part 05c of the agenda.</p>
<p><b>Other work done</b></p>	<p><b>Health and Safety</b></p> <p>Health and Safety reports are submitted to each audit committee throughout the year.</p> <p>COVID-19 has had a significant impact upon the College operations since the turn of the calendar year, which resulted in a contingency management group being formed in January which is headed by Ken Russell, Depute Principal as chair of the group. However it has been a positive year for the College in terms of having had no reportable incidents or significant injuries, and prior to the COVID-19 pandemic, was undergoing a continuing trend of increased reporting, predominantly for minor incidents – while of course it is not desirable to have an increase in incidents, it is believed that the increase is due to more proactive reporting rather than an increase in incidents.</p> <p>With this said, there is much to do to ensure that the College has a robust and reliable Health &amp; Safety Management System in place to support Health &amp; Safety improvement. The BDO internal audit has reinforced many of the observations made by the Health &amp; Safety Manager and as such, the measures and actions for improvement have been identified, with key components being the implementation of a HSG65 compliant Management System in addition to a fully functioning and fit for purpose software package.</p> <p><b>Riddor</b></p> <p>There have been no RIDDOR reportable incidents for academic year 2019-2020 in comparison to a single RIDDOR event for 2018-2019. There has been a change of Health &amp; Safety Manager within the reporting year (November 2019) and since this appointment, several observations regarding Health &amp; Safety arrangements and areas for improvement have been identified, in particular regarding the conducting and management of Risk Assessments.</p>



**Incidents**

The College had been observing an increased trend in the reporting of incidents comparable to the previous year, prior to the onset of COVID-19. This may be viewed in a positive light as it superficially implies involvement with Health & Safety within the workforce. However, analysis of incidents within the reporting system is hindered in some respects by the parameters in which the system has been configured to record them.

A key cause of the issue is due to the outdated organisational structure that the system is configured with, though this is compounded by the custom and practice of mis-recording certain events as incidents which further contaminates the data. The lack of clear and readily available (or acknowledged) guidance on the use of the system plays a significant role in this misunderstanding, in addition to other, wider issues relating to the use of the SHE software system.

The key component to effectively utilising a Health and Safety Software System is the configuration of data sets and the accurate representation of the organisational structure. The organisational structure which is currently in use is largely obsolete, though this is exasperated by ad-hoc 'updates' which have not migrated or redirected data appropriately, thus causing multiple issues for the end user, as well as for the local administrator (Health & Safety Manager).

**Policies**

The following key policies were reviewed during 2019/20

- Annual Review of Risk Management Policy
- Food Safety and Allergens Management Policy
- Secure Handling, Use, Storage and Retention of Disclosure Information Policy
- Data Protection Policy.

The Annual report on Data Protection and Freedom of Information was presented to the committee in June 2020 with the Complaints and Public Interest Disclosure information being presented to the committee in September 2020. No major issues were reported.

**Value for Money and Procurement Annual Report 2019-20**

This report will be discussed at the Finance and General Purposes Committee Meeting being held on 27 January 2021 and then the Board of Management meeting on 18 February 2021.

**Business Continuity Plan**

An internal audit review took place within 2019 with a final report being made available in March 2020. This audit resulted in a number of recommendations. The remaining actions are to be completed in the coming months and the full BCP will be updated accordingly.

## ITEM 06

<b>Opinion</b>	<p>The Audit Committee is of the opinion that the risk management of activities and controls in the areas examined by BDO were found to be suitably designed to achieve the specific risk management control and governance arrangements.</p> <p>The Audit Committee concurs with the (draft) opinion of BDO that the risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review.</p>
<b>Circulation</b>	Copy to the Auditors once approved by the Board of Management
<b>Conclusion</b>	<p>The Audit Committee is pleased to report to the Board of Management that in its opinion the College has adequate internal controls, procedures and systems in place</p> <p>Signed..... Chair, Audit Committee</p> <p>Date .....</p>

## Board of Management

<b>Subject/Title:</b>	Principal's Update
<b>Author:</b> [Name and Job title]	Professor Chris O'Neil Principal and Chief Executive
<b>Meeting:</b>	Board of Management
<b>Meeting Date:</b>	18 February 2021
<b>Date Paper prepared:</b>	11 February 2021
<b>Brief Summary of the paper:</b>	This report provides the Board with an overview of new and continuing activity.
<b>Action requested:</b> [Approval, recommendation, discussion, noting]	Discussion and Decision
<b>Link to Strategy:</b> Please highlight how the paper links to, or assists with:: <ul style="list-style-type: none"> <li>• compliance</li> <li>• partnership services</li> <li>• risk management</li> <li>• strategic plan</li> <li>• new opportunity/change</li> </ul>	
<b>Resource implications:</b>	N/A
<b>Risk implications:</b>	N/A
<b>Equality and Diversity implications:</b>	N/A
<b>Consultation:</b> [staff, students, UHI & Partners, External] and provide detail	N/A

<b>Status</b> – [Confidential/Non confidential]	Confidential		
<b>Freedom of Information</b> Can this paper be included in “open” business* [Yes/No]	No		
*If a paper should <b>not</b> be included within “open” business, please highlight below the reason.			
Its disclosure would substantially prejudice a programme of research (S27)		Its disclosure would substantially prejudice the effective conduct of public affairs (S30)	X
Its disclosure would substantially prejudice the commercial interests of any person or organisation (S33)	X	Its disclosure would constitute a breach of confidence actionable in court (S36)	
Its disclosure would constitute a breach of the Data Protection Act (S38)		Other (please give further details)	
For how long must the paper be withheld? (express either as the time which needs to pass or a condition which needs to be met.)			

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

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

[http://www.itspublicknowledge.info/web/FILES/Public\\_Interest\\_Test.pdf](http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf)