Audit Management Letter

Blackburn College

Year Ending 31 July 2023

29 November 2023

BEEVER AND STRUTHERS

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Contents

Introduction

Our audit of the financial statements of Blackburn College ("the College") is now substantially complete. The purpose of this letter is to bring to your attention the findings from our audit. We acknowledge that you will already be aware of the matters contained in this letter and since we reported to the Audit Committee on 14 November 2023, we have not identfied any further matters to bring to your attention.

In order to comply with the provisions of the International Standard on Auditing (ISA) 260 – 'Communication of Audit Matters with those Charged with Governance' by which we report to management on the findings of our audit, with particular reference to:-

- views about the qualitative aspects of the College's accounting practices and financial reporting;
- the letters of representation;
- unadjusted misstatements;
- matters specifically required by other Auditing Standards to be communicated to those charged with governance (such as fraud and error);
- expected modifications to the auditor's report;
- material weaknesses in the accounting and internal control systems; and
- any other relevant and material matters relating to the audit.

We also take this opportunity to confirm our professional integrity, objectivity and independence.

We see effective communication as being a key part of our audit, and it is important that there is effective two way communication. We welcome any feedback or questions regarding the conduct of the audit process.

This report is not intended to cover every matter which came to our attention during the audit. We do not accept any responsibility for any reliance placed on it by third parties. Our procedures are designed to support our audit opinion and cannot be relied upon to identify any weakness in systems or controls which may exist.

We would like to take this opportunity to formally record our appreciation for the assistance and co-operation provided to us by the Finance Team who assisted us during the course of our audit.

Beever and Struthers **Date 29 November 2023**

Areas of Focus

The following table summarises the key audit issues we identified as requiring specific consideration and the audit procedures we undertook in relation to them.

Audit risks reported in the Audit Plan (June 2023)	Audit procedures and findings
Events not driven by the financial records (Other Audit risk) A number of disclosures in statutory accounts are not driven directly by the financial system and records. Examples of these include operating lease disclosures, post balance sheet events, and related party transactions.	Our audit work in this area covered: • Review of Board and Committee meeting minutes. • Review of declaration of interest forms for all Governors and Key Management Personnel to inform our understanding of related party relationships. • Review on a sample basis of Companies House Directorships and Charity Commission Trusteeships held by Governors and Key Management Personnel to confirm completeness of the related party relationships declared on the declaration of interest forms. • System searches for transactions with all related parties identified through the above 3 procedures. The results of these system searches were used to corroborate the completeness and accuracy of the related party transactions disclosed in the financial statements. • Discussed any related parties, capital commitments or operating leases with the relevant Finance staff. • General consideration throughout the audit process of items that require disclosure in the financial statements. **Our work in this area was concluded satisfactorily.**
Recognition of grant funding and other income (Fraud and significant risk) The college receives income from a variety of sources including the ESFA, Office for Students, tuition fees and education contract income.	We have undertaken testing of each income stream with reference to source documentation, ensuring that income is recognised when the College's entitlement as set out in the applicable underlying funding agreement, or contract, is met. **Our work in this area will be updated to include a review of the final 22/23 funding reconciliations from the ESFA in respect of the main funding for 16-18 year olds, and the Adult Education Budget including 19+.**

Areas of Focus

Audit risks reported in the Audit Plan (June 2023)	Audit procedures and findings
Going Concern **(Significant risk)** The current economic and political climate is challenging. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. Accounting requirements indicate that any material uncertainties about the appropriateness of the going concern assumption are disclosed adequately in the financial statements. In 2020/21 International Standard on Auditing 570: Going concern was updated. The revised standard continues to apply to the College. As a result, auditors are still required to increase their scrutiny that the going concern basis is an appropriate basis on which to prepare the financial statements, and an increased focus on many other estimates and judgements used in preparing the financial statements. The College's budget and forecasts are crucial in the ongoing management of the business and in demonstrating the viability of the organisation. The College accounts direction requires Colleges to "provide in their members' report (or equivalent) an assessment of whether the College is a going concern, including any supporting assumptions, qualifications and mitigating actions, as appropriate (which must be consistent with other disclosures in the accounts, for example in the notes to the financial statements, and auditor's report). "The guidance to Colleges includes: • develop and implement mitigating actions and processes to ensure that you continue to operate an effective control environment. • consider how you will secure reliable and relevant information, on a continuing basis, in order to manage the future operations. • pay attention to capital maintenance, ensuring that sufficient reserves are available and sufficient resources remain to continue to meet the college's needs. • the need for narrative reporting to provide forward-looking information that is specific to the entity and which provides insights into the Board's assessment of business viability and the methods and assumptions underlying that assessment. • going concern and any associated material uncertainties, the basis of any significant judgements and the matters to consider when confirming the preparation of the financial statements on a going concern basis. • the increased importance of providing information on significant judgements applied in the preparation of the financial statements, sources of estimation uncertainty and other assumptions made; and • judgement required in determining the appropriate reporting response to events after the reporting date and the extent to which qualitative or quantitative disclosures may be appropriate.	Our audit programme consists of the following: • review of the budget setting process and procedures. • review of the College's 2023/24 budget and the underlying assumptions. • review of longer-term budgets, business plans and cash flow forecasts. This included your assessment of going concern and disclosures in the financial statements. • review management's assessment of the College continuing to operate as a going-concern including its stress testing of the key financial assumptions and cashflows. • review short and long-term cash flow monitoring procedures. • review performance versus budget for the year. • checking the arithmetic accuracy of the above budgets and forecasts. • review of the disclosures made in the financial statements in respect of going concern for compliance with accounting standards, the College Accounts Direction and the Post-16 Audit Code of Practice 2022-2023 issued by the ESFA. **Our work in this area is not finalised as the review needs to reflect the position up to the date the audit report is signed, as required by International Standards on Auditing.** **Based on the work completed to date we have not identified any matters to draw to your attention.**

Areas of Focus

Audit risks reported in the Audit Plan (June 2023)	Audit procedures and findings
Regularity **(Significant Risk)** The College Accounts Direction and Post-16 Audit Code of Practice require the statutory auditors to undertake a limited assurance review in order to provide an Independent Reporting Accountants' Report on Regularity. The report provides a limited assurance conclusion about whether the expenditure disbursed, and income received by the College in the financial period have been applied in line with the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.	We have documented the key financial systems and control procedures in place. We have reviewed their effectiveness and undertaken tests of control. We have undertaken testing as set out in the Post-16 Audit Code of Practice, which covers the following areas: • Review of the Chair of Governors and Accounting Officer's Statement on Regularity, Propriety and Compliance. • Delegated authorities have been complied with. • Internal controls effectiveness and appropriateness. • Procurement procedures have been applied in line with the College's documented procedures by undertaking sample testing of expenditure transactions e.g. purchase invoices, petty cash, credit card expenditure and tenders. • Grant income has been applied in line with any restrictions outlined in the terms and conditions applicable to the funding. **Our work in this area was concluded satisfactorily.**
Valuation of the Pension liabilities **(Significant risk)** The College participates in the Teachers' Pension Scheme (TPS), and the Lancashire Local Government Pension Scheme (LGPS). The TPS is included in the financial statements as a disclosure note only. The wording for the disclosure is provided by the Pension Scheme. In 2021/22 the actuarial report showed an asset position of £583k for the LGPS scheme which was accounted for as £0 in the balance sheet to comply with the requirements of the accounting standard (FRS 102 para 28.22). The risks with the pension schemes is that the disclosures made are not in line with the actuary report or that the report contains errors. Accounting for these schemes involves significant estimation and judgements. Management engages actuaries to undertake calculations on their behalf. The actuaries of the schemes will value the scheme assets and pension liabilities in accordance with Section 28 of FRS 102 and these will be included in the financial statements at 31 July 2023. ISAs 500 and 540 requires us to undertake procedures on the use of management experts and the assumptions underlying the fair value estimates. The year-end surplus or deficit will be used in the going concern review along with future contribution rates payable.	The actuarial report reported an asset position at 31 July 2023 of £18.531m which is an increase of £17.948m on the 2021/22 asset position of £0.583m. The reasons for the increase are due to a fall in the liabilities of £18.53m due to gains in the actuarial financial assumptions. However, this was offset by a £0.736m decrease in the value of scheme assets. The basis of the improvement on the prior year is primarily due to high UK corporate bond yields resulting in high accounting discount rates which place a significantly lower value on the pension obligations compared to 2021/22. Our review of the valuation of the College's scheme assets and this work concluded that the information provided by the actuary was reliable and consistent with the results reported in the Lancashire Pension Fund accounts. The accounting treatment of the pension asset is defined by para 28.22 Financial Reporting Standard (FRS) 102 which permits that entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan'. Management has assessed the recoverability of the asset and concluded that the disclosure on the balance sheet to be £0 as neither condition can be satisfied. Management's judgement has been to account for the pension position as £nil which is in line with the requirements of FRS102. We also reviewed the enhanced pension provision disclosed as £1,014k at 31 July 2023 (2021/22 £1,215k) and confirmed that the provision was supported by underlying records and that the assumptions used were reasonable. **Our work in this area is concluded satisfactorily.**

Areas of Focus

Audit risks reported in the Audit Plan (June 2023)	Audit procedures and findings
Wages and salaries **(Other audit risk)** Salaries and wages is the largest single expense at the College and therefore is a significant area in the audit. Total pay costs reported in the 31 July 2023 statutory accounts were £23.4m. This amount also includes the pension costs arising from processing the actuarial pension valuation. The audit risks concerning payroll are that leavers in the year have not been correctly removed from the payroll or that fraudulent starters have been added to the payroll and paid a salary.	Staff costs for 2022/23 totalled £23.12m (2021/22 £23.4m). We have documented the procedures in place for making amendments to the payroll each month to ascertain the level of controls over this process. Changes to the payroll were reviewed to confirm the procedures are in place. The procedures in place for the addition and removal of starters and leavers to the payroll have been documented and tests conducted to ensure the procedures are working effectively. Reconciliations between the accounting system and payroll reports were reviewed and variances explained. **Our work in this area was concluded satisfactorily.**
The use of funds as required by the Office for Students **(Other audit risk)** The College receives funds from the Office for Students and as such must also apply the requirements of the Office for Students' Regulatory advice 9: Accounts Direction in preparing the financial statements. The College Accounts Direction includes a summary of the required disclosures at Annex E. The College has an access and Participation Plan and must therefore include analysis of this expenditure in line with the requirements in the Accounts Direction.	Our work included: • review of the accounting disclosures to ensure these are compliant with Annex E in the College Accounts Direction. • Review of the allocation of expenditure to the Access and Participation Plan and corroborated a sample to source documentation. • Confirmed with reference to the underlying agreements, that the expenditure allocated above is allowable expenditure. **Our work in this area was concluded satisfactorily.**
Loan Covenants and Treasury Management **(Other audit risk)** At 31 July 2022 the College had three loans totalling £10,986k. During the current financial year, the £4m loan to Barclays has been fully repaid. The remaining loan is with Santander and is repayable by instalments up to July 2038. The loan is a mix of fixed rates and £1.8m of the loan has a floating interest rate which means the rate can increase and decrease depending on economic and financial market conditions. The College has advised that the risk of significant interest payable is minimal. In addition the loan has a covenant attached within the loan agreement terms and conditions; a potential breach of the covenant is included in the Risk register. .	In addition to the loan agreement instalments the College made further repayments of £2m to both Barclays and Santander reducing the outstanding balance at 31 July 2023 to £6.34m. Our work included: • Obtaining the loan agreements for the loan facilities. • Agreeing the loans held to external loan confirmations from the funders. • Obtaining the supporting documentation for interest payments and receipts in the year. • Reviewing the College's 2023/24 budget and the underlying assumptions and projected compliance with loan covenants. • Reviewing longer-term budgets, business plans and cashflow forecasts. • Testing the detailed calculations for loan covenant compliance prepared by management. **Our work in this area was concluded satisfactorily.**

Areas of Focus

Audit risks reported in the Audit Plan (June 2023)	Audit procedures and findings
ISA 240 "The Auditor's responsibility to consider fraud" requires us to consider the risk of fraud and the impact that this has on our audit approach. There is a presumed significant risk of fraud in two areas: **1. Revenue Recognition (Fraud risk)** Material misstatements due to fraudulent reporting often result from an overstatement of revenues, for example through premature revenue recognition or recording fictitious revenues. The auditor therefore presumes that there are risks of fraud in revenue recognition and considers which types of revenue may give rise to fraud risks. The College receives a variety of sources of income with the majority of funding being from Central Government. Review of the 2022/23 budget confirms total FE Funding Grants of £23.74M of which £17.1M is received from the Education and Skills Funding Agency (ESFA) for 16-18 year-olds and £2.73M for 19+. Other material streams of income include HE Tuition Fees £8.55M, self-fund learners £0.9M and other income £1.38M. The ESFA notify the College of the allocations in advance of each financial year and provide statements of grant payments made in respect of the year. Tuition fees are fees charged directly to students for courses undertaken. This income can be paid directly by students, or via third parties. The cut-off procedures for the ESFA funding and tuition fees, along with other material income streams, will be reviewed as part of our final audit visit.	Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement whether caused by fraud or error. In particular, we reviewed revenue recognition and management control override, as noted below. Our work included: • Meeting management to discuss fraud related risks and the risk of material misstatement in the financial statements. • Reviewing the College's anti-fraud policies and counter fraud strategy. • Reviewing any relevant Internal Audit work. • Reviewing the fraud register. • Assessing and testing the controls over education income and other material sources income, for example specific and capital grants and tuition fees. • Assessing and testing the controls over cash and the segregation of duties in place; • Testing the cut-off on the education funding and other material sources of income including claw-back provisions. • Assessing the controls over the raising and approval of manual journals and accounting estimates. • Reviewing the journals raised after the management accounts for the year ended 31 July 2023 were produced. • Considering management bias of the financial results through the use of journals and management estimates, such as provisions and accruals. • Reviewing manual journals using data analytics procedures.
2. Management Override (Fraud risk) Under ISA 240 there is a presumed risk of management override of the system of internal controls. Material misstatements can arise from management overriding the controls which are in place or by manipulating the results to achieve targets and the expectations of the stakeholders. **Policy Statement** The Board of Governors have adopted anti-fraud policies, including a counter fraud strategy, and we understand the Board of Governors review the fraud register regularly.	**Our work covering management override is complete and we have no findings to bring to your attention.** **As detailed on page 2 our work in relation to the income from the ESFA is not fully finalised. Our work relating to other income is complete and there are no issues to bring to your attention.**

Independence

Ethics and Independence
In the UK and Ireland, auditors are subject to the ethical requirements of the Revised Financial Reporting Council's 2019 Ethical Standards for Auditors.

International Standard on Auditing (UK and Ireland) 260 *Communication with those Charged with Governance* and good practice require us to confirm the following to those charged with governance:

- We confirm that we are independent.
- We confirm that we are unaware of any relationships which may bear on our objectivity and independence.
- We have provided details below of any non-audit services provided to Blackburn College and the fees charged in relation to non-audit services.
- We confirm that we comply with the requirements of the Financial Reporting Council's Ethical standards in relation to the supply of non-audit services by an audit firm.

The Board of Governors should take an active role in considering whether the External Auditor's independence might be impaired by the provision of non-audit services.

Non-Audit Services
In the Audit Plan we confirmed that in addition to our work as the College's External Auditors, we also provide other services to the College, including the below audit related services.

- Regularity assurance
- Teachers' Pension Scheme assurance report

Since the issue of the plan we have been engaged to taxation services which includes;

- Preparation of the company's corporation tax return form CT600 and charity supplementary pages for the period ended 31 July 2023;
- Formatting of accounts to be iXBRL compliant; and
- Submission of the corporation tax return, computation and financial statements to H M Revenue & Customs.

The fee for this work is £575 (excl VAT).

Independence Declaration
We confirm that:

- We are not aware of any personal relationships between Beever and Struthers and the College.
- Appropriate safeguards have been established for the provision of any non-audit services.
- We comply with Ethical Standards and in our opinion the firm is independent within the meaning of regulatory and professional requirements and the objectivity of the engagement partner and the audit staff is not impaired.

We consider that appropriate safeguards are in place and, in our opinion, the provision of these additional services does not prejudice our independence and objectivity as the College's external auditors. We confirm that Helen Knowles is the director responsible for the audit engagement.

Qualitative aspects of Accounting Practices & Financial Reporting

Accounting Policies
FRS 102 requires that entities should review their accounting policies regularly to ensure that they are appropriate to its particular circumstances for the purposes of giving a true and fair view. The Board of Governors plays a key role in this process.

We have reviewed the College's accounting policies as stated in the financial statements in detail and confirm that we judge them to be appropriate to provide relevant, reliable, comparable and understandable information.

Accounting Estimates
Key accounting estimates in the financial statements concern depreciation, allocation of expenditure and the valuation of the LGPS and EPP liabilities/assets. We confirm that estimates have been made appropriately in line with our knowledge of the College and the sector, and are disclosed satisfactorily in the financial statements.

Timing of Transactions
Our audit work confirmed that material transactions were recorded in the correct accounting periods. Accruals and prepayments were made for material items.

Going Concern
The financial statements have been prepared on a going concern basis. We have evaluated your assessment of the College's ability to continue as a going concern and the disclosure made in the Strategic Report and based on our work to date we confirm that this assumption is appropriate. Our work in this area will be updated at the time of signing the audit reports and we will provide an update to confirm if this assumption is appropriate based on the work completed.

Report of the Board
We reviewed other information in the document containing the financial statements. We confirmed that there is no material inconsistency between it and the financial statements. Further, we confirm that the information in the Strategic Report etc. is not materially misstated.

Financial Statement Disclosures
We confirm that we judge the disclosures throughout the financial statements to be neutral, consistent and provide sufficient clarity to the user.

Significant Matters Arising from the Audit
There were no significant matters arising from the audit that were discussed, or subject to correspondence with management.

Significant Difficulties Encountered During the Audit
There were no significant difficulties encountered during the audit.

Audit Opinion and Management Letters of Representation

Management Letter of Representation

In accordance with ISA 580, we obtain written representation from management that they acknowledge their responsibility for preparing the accounts and have made all information available to us.

With the exception of the pension's asset position, we do not propose any additional specific matters on which we will request Board representation to support the conclusions and evidence provided for our audit opinion.

We will present our management representation letter for signing at the same time as the financial statements.

Independent Auditor's Report on the Statutory Financial Statements
The audit work is substantially complete and we expect to provide an unqualified audit opinion for the year ended 31 July 2023 subject to satisfactory resolution of the following areas of work:

- Income work including finalising our ESFA and tuition fees testing and receipt and review of the final ESFA income reconciliations to complete work in this area.
- Completion of our review of the going-concern assessment.

At the date of signing the accounts

- Signed letter of representation *
- Update post balance sheet event and going concern documentation, including review of Board and Committee minutes, latest management accounts and financial forecasts.

Reporting Accountant's Report on Regularity
In addition to the letter of representation covering the statutory accounts and audit, a further letter of representation is required in support of our Reporting Accountant's Report on Regularity.

There are no specific matters on which we have requested Board representation to support the conclusions and evidence provided for our audit opinion.

We expect to provide an unmodified opinion on Regularity for the year ended 31 July 2023, subject to satisfactory resolution of the following:

- Signed copy of the Letter of Representation *

* to be signed at the same time as the financial statements).

Materiality, Audit findings and adjustments

Materiality

Our audit work is based upon an assessment of materiality to ensure there is no material misstatement contained in the financial statements. In assessing materiality, we take into account both the materiality of the class to which the balance belongs and the overall impact of the balance on the income and expenditure account and balance sheet.

ISA 260 requires us to report to management on all uncorrected misstatements identified during the audit, and to include in this report how we have calculated materiality, and any misstatements identified during the audit which have been corrected.

We are not required to report on corrected or uncorrected misstatements we believe are clearly trivial.

We used one materiality figure for both the Statement of Financial Position ('SOFP') and the Statement of Comprehensive Income ('SOCI') items as per our firm's policy on materiality thresholds, which us 2% of total expenditure. Triviality is based on 5% of materiality. A summary of the final assessment of materiality is as follows.

	Materiality	Triviality
Blackburn College	£721,560	£36,075

At the September Audit Committee we agreed to confirm the above figures to the Chair of Audit Committee before the commencement of the year-end fieldwork. We communicated the above figures and it was confirmed that members of the Committee were content with the levels to be used.

Audit Adjustments

Trade payables of £1,251k includes creditor payments for pension contributions to the Teachers and Local Government Pension Schemes totalling £355k. Management have agreed that these are not trade related and will amend the creditors note, which will also include adding the prior comparator of £334k.

Unadjusted and adjusted potential misstatements

At the time of writing we have not identified any potential misstatements of balances affecting reported surplus through our audit testing.

Disclosure amendments

The depreciation accounting policy discloses the useful economic lives for buildings over a range of years. This is because asset components are also considered but not specified in the policy. Management have agreed to amend the policy to state the life for the building and confirm the main types of components together with the range of years they will be depreciated.

Accounting and system of Internal Control

We have tested the systems of internal financial control to the extent that we intended to place reliance on them in forming our audit opinion on the accuracy of the figures in the financial statements. Our audit work enabled us to place substantial reliance on the operation of key controls, as planned.

ISA 260 requires that we report to those charged with governance any material weaknesses in internal control that we identify in the course of our audit work. A material weakness is one that could adversely affect the College's ability to record, process, summarise, and report financial or other data so as to result in a material misstatement in the financial statements.

Internal Audit

As the External Auditors of the College we have the sole responsibility for the audit opinion expressed on the College's financial statements. We are also responsible for determining the nature, extent and timing of the external audit procedures. All judgements relating to the audit of the financial statements are ours.

As External Auditors we consider the activities of the Internal Audit function and their effect, if any, upon our own procedures. Where appropriate we seek to use the work of Internal Audit as a form of evidence available to us to avoid the duplication of audit effort. Our overall responsibility is not reduced by any use of Internal Audit work but it is a form of evidence available to us. As External Auditors we obtain an understanding of Internal Audit activities to assist us in planning the audit. This facilitates the development of an effective audit approach.

External Audit Scope of Work and Overall Assessment

We have tested the systems of internal financial control to the extent that we intended to place reliance on them in forming our audit opinion on the accuracy of the figures in the financial statements. Our audit work enabled us to place substantial reliance on the operation of key controls, as planned.

ISA 260 requires that we report to those charged with governance any material weaknesses in internal control that we identify in the course of our audit work. A material weakness is one that could adversely affect the College's ability to record, process, summarise, and report financial or other data so as to result in a material misstatement in the financial statements.

The results from our audit procedures undertaken in respect of the year ended 31 July 2023 year end have not identified any weaknesses in the system of internal control.

In the management letter for 2021/22 we raised the following matters and confirm that these have now been addressed.

1. *We recommend that a formal approval process is implemented for the approval of manual journals.*

   Our review of the journals control environment confirms that a control has been implemented and is operating effectively.

2. *Bad debts policy*

As part of our review of the bad debts provision we noted that there was no formal policy to support the methodology used to calculate the provision.

We can confirm that Management have updated the Financial Regulations to satisfactorily address this matter.

BEEVER AND STRUTHERS

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

One Express
1 George Leigh Street
Manchester M4 5DL

T: 00 44 161 832 4901
E: manchester@beeverstruthers.co.uk
W: beeverstruthers.co.uk