



Audit Management Letter

Blackburn College
Year Ending 31 July 2022

1 December 2022

BEEVER
AND
STRUTHERS

CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS



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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 and acknowledge that you will already be aware of the majority of the matters contained in this letter.

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

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 2022)	Audit procedures and findings
<p>Events not driven by the financial records 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.</p>	<p>Our audit work in this area covered:</p> <ul style="list-style-type: none"> • Review of Board and Committee meeting minutes. • Review 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. • Discuss any related parties, capital commitments or operating leases with the Senior Management Accountant. • General consideration throughout the audit process of items that require disclosure in the financial statements. <p>Our work in this area was concluded satisfactorily.</p>
<p>Recognition of grant funding and other income The college receives income from a variety of fees including the ESFA, Office for Students and tuition and education contract income.</p>	<p>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. This testing has included an assessment of the stage of delivery of the service covered by the income stream.</p> <p>Our work in this area will be updated to include a review of the final 21/22 funding reconciliations from the ESFA in respect of the main funding for 16-18 year olds, and the Adult Education Budget including 19+.</p>

Areas of Focus

Audit risks reported in the Audit Plan (June 2022)	Audit procedures and findings
<p>Going Concern 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.</p> <p>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.</p> <p>The College's budget and forecasts are crucial in the ongoing management of the business and in demonstrating the viability of the organisation.</p> <p>The College accounts direction requires College's 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:</p> <ul style="list-style-type: none"> • 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. 	<p>At the audit we undertook the following:</p> <ul style="list-style-type: none"> • review of the budget setting process and procedures. • review of the College's 2022/23 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 2021-2022 issued by the ESFA. <p>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.</p> <p>However, based on the work completed to date we have not identified any matters to draw to your attention.</p>

Areas of Focus

Audit risks reported in the Audit Plan (June 2022)	Audit procedures and findings
<p>Regularity</p> <p>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.</p>	<p>We have documented the key financial systems and control procedures in place. We have reviewed their effectiveness and undertaken tests of control.</p> <p>We have undertaken testing as set out in the Post-16 Audit Code of Practice, which covers the following areas:</p> <ul style="list-style-type: none"> • Review of the Chair of Governors and Accounting Officer's Statement on Regularity, Propriety and Compliance. • Delegated authorities have been complied with. • Governance considerations. • 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. • Grant income has been applied in line with any restrictions outlined in the terms and conditions applicable to the funding. <p>Our work in this area was concluded satisfactorily.</p>
<p>Valuation of the Pension liabilities</p> <p>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. The LGPS full actuarial deficit is included on the College's balance sheet. As at 31 July 2021 the liability was £27,619k.</p> <p>The risks with the pensions 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 2022.</p> <p>ISAs 500 and 540 requires us to undertake procedures on the use of management experts and the assumptions underlying the fair value estimates</p> <p>The year-end surplus or deficit will be used in the going concern review along with future contribution rates payable.</p>	<p>We have reviewed and agreed the information in the actuarial report to the financial statements. This has resulted in the pension liability in the LGPS scheme in 20/21 of £27,619k moving to an asset position of £583k at 31 July 2022. In accordance with section 28 of Financial Reporting Standard 102, the asset has not been recognised in the balance sheet. However, Management are considering whether the asset position should be disclosed.</p> <p>Our work has also reviewed the assumptions used by the actuary which identified that one relating to mortality rates was slightly below the benchmarked range. Further work confirmed that this did not have a material impact on the future pension obligations.</p> <p>We also undertook further procedures in respect 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 21/22 accounts.</p> <p>We also reviewed the enhanced pension provision disclosed as £1,215k at 31 July 2022 (20/21 £1,491k) and confirmed that the provision was supported by underlying records and that the assumptions used were reasonable.</p> <p>Our work in this area is concluded satisfactorily.</p>

Areas of Focus

Audit risks reported in the Audit Plan (June 2022)	Audit procedures and findings
<p>Wages and salaries</p> <p>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 2021 statutory accounts were £23.5m. This amount also includes the pension costs arising from processing the actuarial pension valuation.</p> <p>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.</p>	<p>Staff costs for 21/22 totalled £23,401k (20/21 £23,538k). 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.</p> <p>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.</p> <p>Reconciliations between the accounting system and payroll reports were reviewed and variances explained.</p> <p>Our work in this area was concluded satisfactorily.</p>
<p>The use of funds as required by the Office for Students</p> <p>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.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> • 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. <p>Our work in this area was concluded satisfactorily.</p>
<p>Loan Covenants and Treasury Management</p> <p>At 31 July 2021 the College had two loans totalling £11,600k. The loans have covenants attached within the loan agreement terms and conditions.</p>	<p>The College had made further repayments in accordance with the loan agreement reducing the outstanding balance at 31 July 2022, to £10,896k.</p> <p>Our work included:</p> <ul style="list-style-type: none"> • Obtaining the loan agreements for the loan facilities. • Assessing the monitoring arrangements in place for loan covenant compliance. • 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 2022/23 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 <p>Our work in this area was concluded satisfactorily.</p>

Areas of Focus

Audit risks reported in the Audit Plan (June 2022)	Audit procedures and findings
<p>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.</p> <p>There is a presumed significant risk of fraud in two areas:</p> <p>1. Revenue Recognition</p> <p>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.</p> <p>The College’s main sources of income are funding from the Education and Skills Funding Agency (ESFA) and Tuition Fees. These income streams amounted to £22m and £11m respectively, in the 2020/21 financial statements. 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.</p> <p>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.</p> <p>2. Management Override</p> <p>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.</p> <p>Policy Statement</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> • 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; • Assessing the controls over the raising and approval of manual journals and accounting estimates. • Testing the cut-off on the education funding and other material sources of income including claw-back provisions. • Reviewing the journals raised after the management accounts for the year ended 31 July 2022 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. <p>Our work in this area was concluded satisfactorily.</p>
<p>Accounting treatment for the Victoria Buildings</p> <p>Included in the College’s asset portfolio is the Victoria Building which is a grade II listed. The asset is in need of repair and renovation and the total costs of the project are estimated to be £30m with the College funding £2,550k and the remainder of the funding secured through the Department of Education. The scheme is scheduled to be completed by April 2025.</p>	<p>At the time of the audit the timing of the renovation work was uncertain regarding in which financial year this would occur.</p> <p>We have now confirmed with Management that the Victoria Building was fully operational up to 31 July 2022 and that the works will start in the current financial year. We will give further consideration to this matter during the 2022/23 audit.</p>

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 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

We consider that the provision of these audit related services does not prejudice our independence and objectivity as the College's External Auditors.

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.

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 we confirm that this assumption is appropriate.

We will update our work on going concern to cover up to the date the audit report is signed.

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 are required to 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

Independent Auditor's Report on the Statutory Financial Statements

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.

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

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 unqualified audit opinion for the year ended 31 July 2022, subject to satisfactory resolution of the following areas of work:

- Receipt and review of the final ESFA income reconciliations to complete our work on income.
- Final set of Financial Statements to include updated disclosures to reflect the Office for National Statistics announcement on 29 November 2022 to reclassify Further Education Corporations within the Public Sector.

At the date of signing the accounts

- Signed letter of representation (to be signed at the same time as the financial statements).
- 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.

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

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 2022, subject to satisfactory resolution of the following:

- Signed copy of the Letter of Representation. The letter should be signed and provided within 14 days of the accounts signing date.

Materiality, Audit findings and adjustments

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.

Materiality

Our audit procedures have been designed to provide reasonable assurance that the financial statements are free of material misstatements. On 7 June 2022, the Audit Committee set materiality for the audit at £500,000. We also set a triviality threshold of £25,000 being 5% of materiality for the purpose of reporting any adjusted or unadjusted misstatements arising from our work.

Unadjusted and adjusted potential misstatements

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

Disclosure amendments

At the time of writing the following changes have been made to the Financial Statements:

- Debtors and creditor re-classifications
Management identified that there were debit balances on trade payables and credit balances on trade debtors totalling £397k. However, due to limitations of the financial system these adjustments could not be posted to the reflect the correct balances to trade debtors and payables. The amendments were instead made to prepayments and accruals and deferred income.

Management has now correctly re-classified the adjustments to reflect the correct balances to trade debtors and creditors. The overall totals for debtors and creditors of £2,235k and £8,154k, respectively remain unchanged.
- The capital commitment note has been updated to reflect commitments of £707k at the 31 July 2022 as this information was not ready when the initial accounts were produced.

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.

1. *In the 2020/21 management letter, the former External Auditor BDO LLP, raised the following control recommendation:*
 - *We recommend that a formal approval process is implemented for the approval of manual journals.*

We note from the management response that the recommendation was not implemented on the basis that there were other compensating controls.

We have completed our review of journal the control environment and whilst our testing has not identified any journals which indicate fraud or bias, given that manual journals present a high risk of manipulation to the financial records, we recommend that Management consider the implementation of a control that is proportionate to the volume of manual journals and the perceived risk and update the Financial Regulations.

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 recommend that Management include the methodology within the College Financial Regulations.

The results from our audit procedures undertaken in respect of the year ended 31 July 2022 year end have not identified any other weaknesses in the system of internal control.

BEEVER AND STRUTHERS

CHARTERED ACCOUNTANTS
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