Report to the Audit Committee BLACKBURN COLLEGE Audit Completion: Year ended 31 July 2020 **UPDATED TO FINAL - 15 DECEMBER 2020** 1001 275,000 (15.) (000) (309,000) 21.000 Q3 500 Q4 IDEAS | PEOPLE | TRUST

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WELCOME

In accordance with International Standards on Auditing (UK) we submit our Completion Report to the Audit Committee setting out certain matters relating to the audit for the year ended 31 July 2020 that we are required to bring to your attention.

It summarises the results of completing the planned audit approach, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of audit work on key risk areas, including significant estimates and judgements made by Management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit Committee meeting on 17 November 2020, and to receiving your input. The report will be finalised to reflect that discussion and completion of the audit procedures and reissued at the point we sign the financial statements.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the Management and staff of the College for the co-operation and assistance provided during the audit.

Helen Knowles

9 November 2020

Update: this report has been updated to final through the completion of the outstanding matters/addendum at page 31. We have now completed our audit work and issued an unmodified audit opinion.

Helen Knowles 15 December 2020



Helen Knowles Audit Director and RI

m: 07581 463 074 e: helen.knowles@bdo.co.uk



Sam Hughes Audit Senior Manager

m: 07890 550 846 e: sam.hughes@bdo.co.uk



Melissa Rayner Audit Senior

m: 07870 150550 e: melissa.rayner@bdo.co.uk

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Board and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW Executive summary

This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements for the College for the year ended 31 July 2020.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Audit report

Our audit work is substantially complete, and subject to the successful resolution of outstanding matters listed on page 31, we anticipate issuing our audit opinion on the College's financial statements for the year ended 31 July 2020 in line with the agreed timetable.

Regularity report

We are also required under the ESFA 'Post-16 Audit Code of Practice 2019 to 2020' to report in our capacity as Reporting Accountants on the College's Statement on Regularity, Propriety and Compliance and whether it is fairly stated.

Our testing in this area is complete and we have no issues to report with regards to your regularity statement.

Going concern

In this uncertain environment where forecasting student numbers is challenging, business continuity plans have been activated, forecasting future cash flows with any degree of certainty is challenging, detailed reference to this uncertainty will be required in your description of estimates and judgments and your narrative reports.

We have reviewed management's documentation in respect of going concern, including cash flow forecasts and forward loan covenant calculations. There is ample headroom on all covenants with one exception, where Santander have historically required net assets to be at least \pounds 7m. The College is now below this benchmark, but Santander have stated they will be issuing a formal letter removing that covenant from the loan agreement. This letter is expected imminently and will then allow us to conclude on this matter. Other than this outstanding matter, we have no issues to report to you on going concern.

Audit approach

There were no significant changes to the planned audit approach, other than we performed a fully remote audit this year due to Covid-19. No additional significant audit risks have been identified.

No restrictions were placed on our work.



THE NUMBERS Executive summary

Final Materiality

Financial Statement Materiality was determined based on 1.75% of incoming resources.

Changes were made to planning materiality (£610k) as a result of an increase in income from the forecasted outturn position at the planning stage of the audit.

Unadjusted audit differences

We have not identified any unadjusted audit differences.

Financial reporting

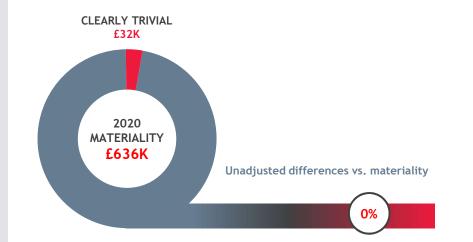
- We have not identified any noncompliance with accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going Concern disclosures in the financial statements require further detail. See page 17 for further detail.

Other matters that require discussion or confirmation

- We have not identified any control deficiencies which we wish to bring to your attention.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the College in accordance with the FRC's Ethical Standard.



OVERVIEW

As identified in our audit planning report dated 19 May 2020, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk Identified at Planning	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	Specific Letter of Representation Point
Going Concern	Yes	No	No	No	Yes
Revenue recognition	No	No	No	No	No
Management override of controls	Yes	No	No	No	No
DB pension scheme liability	No	Yes	No	No	No

Areas requiring your attention

GOING CONCERN

This is an uncertain environment: forecasting student numbers is challenging, business continuity plans have been activated and forecasting future cash flows with any degree of certainty is also challenging.

Significant management judgementYesUse of expertsNoUnadjusted errorNoAdjusted errorNoAdditional disclosure requiredYesSignificant Control FindingsNoLetter of Representation pointYes		
Unadjusted errorNoAdjusted errorNoAdditional disclosure requiredYesSignificant Control FindingsNoLetter of RepresentationYes	5	Yes
Adjusted errorNoAdditional disclosure requiredYesSignificant Control FindingsNoLetter of RepresentationYes	Use of experts	No
Additional disclosure required Yes Significant Control Findings No Letter of Representation Yes	Unadjusted error	No
required Yes Significant Control Findings No Letter of Representation Yes	Adjusted error	No
Letter of Representation Yes		Yes
Letter of Representation 105	Significant Control Findings	No
		Yes

Risk description

Management must assess whether they are satisfied that the College will remain a going concern for a period of at least 12 months from the date of signing of the annual financial statements.

The global outbreak of Covid-19 in early 2020 has placed financial and operational pressures on the College's financial resources. This includes:

- funding body grants and tuition fee income (reliant on student recruitment numbers)
- cost pressures increasing risk of loan covenant breaches
- defaults on student debts

Accordingly, we consider going concern to be a significant risk for the College.

Details

We have reviewed:

- Management's forward budgets for FY21 and indicative forecast for FY22 - we have challenged the underlying assumptions and agreed forecasts where relevant to supporting documentation, such as the 2020/21 ESFA 16-19 funding allocation statement
- Cash flow forecast through to July 2022 this shows the College will remain strongly cash-positive throughout this period, with a projected cash low point of £8.3m in March 2022
- Current loan facilities and forward loan covenant calculations - we have challenged the forecasting methodology and performed a sense check on results

Commentary

The College had cash of £9.5m and loans of £12.3m as at 31 July 2020. Whilst the loans are fully drawn, the College has an unused revolving credit facility of £6m and an unused overdraft facility of £4m, providing ample funding headroom if required.

We note that all loan covenants are forecasted to be comfortably met for both FY21 and FY22, with one exception. Santander have historically required net assets to be at least £7m; the College's net assets as at 31 July 2020 were £2.2m, due to a significant increase in the pension liability. Santander have informed us and the College that this £7m covenant is being withdrawn, and we await formal notification of this before we can conclude on going concern.

We have also reviewed the disclosures made about going concern in the narrative reports section of the financial statements, including the impact of covid-19, and following some expansion of this wording at our suggestion, are content that the disclosure is now sufficiently robust.

Discussion and conclusion

Subject to the receipt of the formal notification from Santander that the £7m net assets covenant is being withdrawn, we have no significant issues to report to you on going concern.

REVENUE RECOGNITION

Under International Standard on Auditing 240 "The auditor's responsibility to consider fraud in an audit of financial statements" there is an assumption that revenue recognition is a fraud risk.

Significant management judgementYesUse of expertsNoUnadjusted errorNoAdjusted errorNoAdditional disclosure requiredNoSignificant Control FindingsNoLetter of Representation pointNo		
Unadjusted error No Adjusted error No Additional disclosure No required No Significant Control Findings No Letter of Representation No	5	Yes
Adjusted error No Additional disclosure No required No Significant Control Findings No Letter of Representation No	Use of experts	No
Additional disclosure No Additional disclosure No Significant Control Findings No Letter of Representation No	Unadjusted error	No
Additional disclosure No Significant Control Findings No Letter of Representation No	Adjusted error	No
Letter of Representation No		No
	Significant Control Findings	No
		No

Risk description

The two main income streams for the College are funding body grants (primarily from the ESFA) and tuition fee income. There is also a material amount of Other Income received.

Funding Body Grants

Within Blackburn College there is a significant amount of income from recurrent funding body grants.

Work undertaken:

- We have reconciled the ESFA income to the funding allocation letters and agreed income through to bank receipts;
- We are awaiting the final ESFA funding reconciliation statement for 2019/20 to assess the level of any significant clawbacks due to the ESFA;
- We have agreed the release of deferred government capital grants and ensured that these are being released in line with the depreciation on the assets to which they relate.

Tuition fee income

The processing of student tuition fees is automated and fees are restricted to pre-approved rates.

A number of the courses provided by the College are funded via the Student Loans Company and there is a risk that these funds are claimed inappropriately.

Work undertaken:

• We have reviewed the operation of controls over tuition fee income, collection and pursuing of the student debtors including those settled through the Student Loans Company;

- We set an expectation of tuition fee income based on the tuition fees charged during the year and the number of students and compared this with the income recognised in the year;
- We tested a sample of students agreeing back to supporting registration documentation and the course fees charged; and
- Cut off testing has been performed to ensure income has been recognised within the correct period.

Other income

Other material income streams include other income generating activities (commercial activities), catering, support and admin services and miscellaneous income. There is a risk that the income is not recognised in the period in which the activities to which it relates were performed.

Work undertaken:

- We agreed a sample of other income transactions to supporting documentation and recalculated deferred income balances (where relevant) to ensure income has been recognised in the correct period.
- Cut off testing has been performed to ensure income has been recognised within the correct period.

Conclusion

We have no significant issues to bring to your attention around revenue recognition, and are satisfied that income is not materially misstated in the financial statements.

MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant management judgementYesUse of expertsNoUnadjusted errorNoAdjusted errorNoAdditional disclosure requiredNoSignificant Control FindingsNoLetter of Representation pointNo	Key audit matter	Yes
Unadjusted errorNoAdjusted errorNoAdditional disclosure requiredNoSignificant Control FindingsNoLetter of RepresentationNo	0	Yes
Adjusted error No Additional disclosure required No Significant Control Findings No Letter of Representation No	Use of experts	No
Additional disclosure requiredNoSignificant Control FindingsNoLetter of RepresentationNo	Unadjusted error	No
Reduction of the control FindingsNoLetter of RepresentationNo	Adjusted error	No
Letter of Representation No		No
	Significant Control Findings	No
		No

Risk description

Under International Standards on Auditing (UK) 240, there is a presumed significant risk of management override of the system of internal controls.

The primary responsibility for the detection of fraud rests with Management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Details

Our understanding is that the most likely areas where management override could take place are the posting of journals and in the judgements involved in accounting estimates within the financial statements.

In assessing the risk and designing our response we assessed where the risk of fraud is greatest and targeted our work on those journals.

The significant estimates that are involved in the preparation of the financial statements are:

- Bad debt provision
- Fixed asset useful economic lives / depreciation
- Impairments
- Assumptions applied in calculating pension liabilities (see page 10).

Testing

We obtained a complete list of journals and, using information gathered during the audit and our understanding of the entity we target tested those journals and adjustments that we considered may be inappropriate or unusual. We did this using our data analytics tool, Advantage.

We also reviewed material journals and transactions outside of what is considered the normal course of business.

We reviewed significant accounting estimates and judgements to ensure they were appropriate.

Results and conclusion

Journals

Our audit testing on journals was completed satisfactorily. No issues arose from our work around journals which we wish to bring to your attention.

Accounting estimates

Our review of accounting estimates showed management's estimates to be a reasonable basis on which to calculate elements of the financial statements. We did not identify any matters that indicate management bias in this area.

PENSION LIABILITIES - LGPS AND ENHANCED PENSIONS

The value of the liability can fluctuate significantly dependent on the assumptions and movements in the market. Pension valuations will be affected by the impact of Covid 19 events on the stock market, other asset valuations and changes to discount rates.

Significant management judgement	No
Use of experts	Yes
Unadjusted error	No
Adjusted error	No
Additional disclosure required	No
Significant Control Findings	No
Letter of Representation point	No

Risk description

The College balance sheet at 31 July 2019 had substantial liabilities regarding the following pension schemes:

- LGPS pension (LCPF) £17.9m
- Enhanced pensions (EPP) £1.5m

The movement on the value of the provisions at 31 July 2020 is dependent on the assumptions applied. The value of the liability can fluctuate significantly dependent on the assumptions set by the scheme actuaries and movements in the market. Pension valuations will be affected by the impact of COVID-19 events on the stock market, other asset valuations and changes to discount rates.

Testing

LCPF

We obtained the actuarial report for LCPF pension provision, as prepared by the College's actuaries, and used our actuarial team to review the assumptions for 2020 therein to determine whether we considered the year end liability to be materially correct.

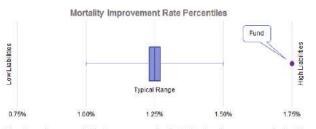


Part of the reason for the discount rate falling outside the range we are typically seeing from other actuaries is due to Mercer's use of corporate bonds that are rated as AA by just one credit agency. We remain comfortable with the assumption.

Testing (continued)



Although we are comfortable with the methodology and the final result, the CPI assumption is slightly higher than we are typically seeing being used by other actuaries based on funds of similar duration. There is currently a larger range of potentially acceptable assumptions for CPI given the ongoing consultation on RPI reform.



The long-term mortality improvement rate is higher than we are typically seeing being used by other actuaries. This is due to using the same assumption as used for funding purposes, but we remain comfortable that the overall assumption is appropriate. Whilst this element would typically result in higher liabilities, overall the life expectancies are lower than in the prior year due to other charges within the mortality assumption.

PENSION LIABILITIES - LGPS AND ENHANCED PENSIONS

The value of the liability can fluctuate significantly dependent on the assumptions and movements in the market. Pension valuations will be affected by the impact of Covid 19 events on the stock market, other asset valuations and changes to discount rates.

Significant management judgement	Yes
Use of experts	Yes
Unadjusted error	No
Adjusted error	No
Additional disclosure required	No
Significant Control Findings	No
Letter of Representation point	Yes

Testing (continued)

EPP

We obtained a copy of the EPP pension provision calculation prepared by Broadstone. We reviewed the assumptions in the calculation, ensuring that they are in line with sector wide practices for this pension scheme and also that growth assumptions were in line with the College's budget for future periods to determine whether we consider the year end liability to be materially correct.

Results and conclusions

LCPF

The net defined benefit scheme liability has increased significantly from £17.9m to £29.1m at 31 July 2020, primarily due to an actuarial loss of £9.2m for the year.

Our actuarial team have reviewed the assumptions and advise that they provide a reasonable basis for the liability calculation. Further information on the assumptions applied is detailed on page 10 of this report. We are comfortable that these are not materially misstated.

EPP

The EPP pension provision has remained near identical to prior year, at \pounds 1.5m. We are content this is fairly stated.

Testing has been completed satisfactorily. We have reviewed the accounting and disclosure for both schemes and are content these are fairly presented in the financial statements.



FINANCIAL REPORTING

SIGNIFICANT MATTERS

The following are additional significant matters arising during the audit which we wish to bring to your attention.

Issue	Comment
Blakey Moor / impairment	We note that the College's unused Blakey Moor property continues to remain unsold, but note that on-going discussions have been held with the council regarding a potential sale to them, with discussions currently on pause due to covid-19.
	We have reviewed the carrying value of the property to assess whether there is any impairment to the value, given its current mothballed status. We note the carrying value of the property in the College books is £0.1m, and that the projected sale value would be in the region of £0.5m. As such, we are content that there is no impairment of the carrying value.
	Land and buildings remains the largest item on the College balance sheet, at cost of £77m and net book value of £47m. We would take this opportunity to remind the Audit Committee of the requirement under section 27 of FRS 102 for management to assess at each reporting date whether any assets held by the College are impaired, and would request that a formal impairment review paper is prepared each year going forward.



ACCOUNTING POLICIES

Overview

Financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), the Statement of Recommended Practice: accounting for further and higher education (FEHE SORP 2019) and the ESFA College Accounts Direction 2019-2020.

Discussion

• We have not identified any non-compliance with accounting policies or applicable accounting framework.



KEY JUDGEMENTS AND ESTIMATES

Overview

Key judgements include:

- Recoverability of debtors
- Valuation of fixed assets
- Provisions
- · Retirement benefit obligations

Discussion: Recoverability of debtors

We compared the provision policy to the prior year noting that there was no change in the methodology applied. We have ensured the provision is arithmetically correct and compared the provision to the level of debts at 31 July 2020 that were still outstanding during the audit fieldwork. We are content the bad debt provision is adequate.

Discussion: Valuation of fixed assets

Fixed asset useful economic lives - we reviewed the UELs of the different fixed asset classes compared with other Institutions in the FEHE sector, and are content these appear reasonable.

Fixed asset impairment - please see discussion on page 12.

Discussion: Provisions

These comprise pension liabilities. Please see pages 10 and 11 for details of the work performed on the pension provisions, and below for the work performed on the actuarial assumptions that have gone into the pension provision calculation. We have agreed the provisions to annual pensions figures provided by LCPF and Broadstone (re EPP) and are content these provisions are fairly stated in the financial statements.

Discussion: Retirement benefit obligation

The pension liabilities are calculated by applying a number of estimates and assumptions to the most recent valuation. The estimates include the discount rate and salary increases, and are calculated by the relevant scheme actuaries. We have used our pensions experts Broadstone to review the assumptions and estimates to ensure they are in line with expectations and other assumptions and estimates used on similar pension schemes. From the testing completed there are no issues to note in relation to the estimates applied to the pension liability valuation. See pages 10 and 11 of this report for further detail.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the governors have ultimate responsibility for the prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 19 May 2020.

Laws and regulations

The most significant consideration(s) for your College are HERA 2017, Employment Taxes, Health and Safety and the Bribery Act 2010 and VAT legislation. We made enquiries of management and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We have no issues to report to you from our audit of related party transactions or the related party transactions note in the financial statements.

Regularity

We are also required under the ESFA 'Post-16 Audit Code of Practice 2019 to 2020' to report in our capacity as Reporting Accountants on the College's Statement on Regularity, Propriety and Compliance and whether it is fairly stated. The objective of the regularity audit is to perform such procedures as to obtain information and explanations in order to provide us with sufficient evidence to express a negative conclusion on regularity.

Our testing in this area reviews substantive items of expenditure to assess whether in all material respects funds were used for the purposes given (including donations and all sources of grant funding).

Our testing in this area is satisfactorily complete; there are no issues which we wish to bring to your attention.

UNADJUSTED AUDIT DIFFERENCES

Details for the current year

We are required to bring to your attention unadjusted differences and we request that you correct them. We have not identified any unadjusted audit differences during our audit work.

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Board is required to consider

We reviewed your draft FY20 statutory financial statements, including the disclosures in the 'Other information' (the Strategic Report and Statement of Corporate Governance and Internal Control), and have reported our comments back to management. These have now been processed (see page 19 for further detail) and we have identified no further unadjusted disclosure omissions or improvements.



ADJUSTED AUDIT DIFFERENCES

Details for the current year

There were no adjusted audit differences.

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Board is required to consider

We reviewed your draft FY20 statutory financial statements, including the disclosures in the 'Other information' (the Strategic Report and Statement of Corporate Governance and Internal Control), and reported our comments back to management, including a request for the disclosure wording around going concern and covid-19 to be expanded.

This has now been done in the most recent draft statutory financial statements, and we are now content with the disclosures.



CONTROL ENVIRONMENT: SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit Committee.

As the purpose of the audit is for us to express an opinion on the College's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any internal control deficiencies during our audit, which we wish to bring to your attention.



INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence. Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence and discuss with you any independence issues including threats to our independence and the safeguards applied to mitigate them.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 July 2020.

Details of services, other than audit, provided by us to the College during the period and up to the date of this report are set out in the appendices. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the College policy on this matter. Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our planning report.

Details of other threats and safeguards applied are given in the appendices.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical and are independent of the College.

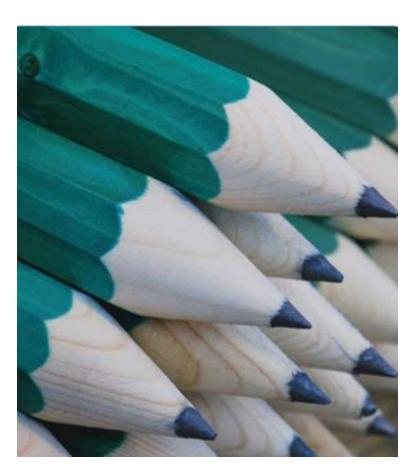
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the College.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary for year ended 31 July 2020

	£'000	£'000
Audit fee for period ending 31 July 2020		
College financial statements	27,000	
Total audit fees		27,000
Total non-audit services: Teachers Pension return	780	
Total fees		27,780





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OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated financial statements. We report our opinion on the financial statements to the members.

We read and consider the 'other information' contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

For statutory other information such as the strategic report and the Governors' report we will form an opinion on whether the information given in the other information is consistent with the financial statements and our knowledge obtained in the audit and whether the reports have been prepared in accordance with applicable legal requirements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

AUDIT QUALITY



BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at <u>www.bdo.co.uk</u>

Dear Sirs/Madams,

Financial Statements of Blackburn College for the year ended 31 July 2020

We confirm that the following representations given to you in connection with your audit of the College financial statements (the "financial statements") for the year ended 31 July 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of governors and officials of the College as appropriate.

We have fulfilled our responsibilities as governors for the preparation and presentation of the College financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of the College as at 31 July 2020 and of the results of its operations and cash flows for the year then ended in accordance with the applicable financial reporting framework and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the College have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders' meetings have been made available to you.

Going concern

We have made an assessment of the College's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the College is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the College's ability to continue as a going concern.

We confirm that cash flow forecasts used in our assessment of going concern are based on our best estimate of student numbers, committed costs, loan drawings and related interest charges and overheads adjusted for inflation.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the College is conducted and which are central to our ability to conduct the College, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

We are satisfied that all material instances of irregularity or impropriety, or non-compliance with the terms of the College's financial memorandum have been reported to the Corporation and the Education and Skills Funding Agency.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not correcting such identified misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

[Above wording to be confirmed - to discuss adjustments at audit completion meeting]

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable accounting framework.

There were no loans, transactions or arrangements between the College and the governors or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We confirm that the valuation of the pension liability is calculated with reference to market levels and the most relevant demographic and financial assumptions at 31 July 2020.

Other matters

We confirm that none of the College's assets are stated in the balance sheet at 31 July 2020 at an amount exceeding their recoverable amount.

All properties are in existence and beneficially owned by the College. Title deeds are held by mortgagees, local authorities or solicitors as security for specific charges against the properties, in respect of loans outstanding at the balance sheet date, where appropriate.

Accounting estimates

We confirm that income has been applied in accordance with the Financial Memorandum with the Education and Skills Funding Agency. We also confirm that income from the Education and Skills Funding Agency and grants and income for specific purposes and from other restricted funds administered by the College have been applied for the purposes for which they were received. We confirm that the College has complied with the Education and Skills Funding Agency's annual College Accounts Direction.

We have reviewed the Statement on Regularity, Propriety and Compliance and are satisfied that it has properly discharged our responsibilities to Parliament for the resources under our control during the financial year ended 31 July 2020.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each governor has taken all the steps that they ought to have taken as a governor in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

(Signed on behalf of the **board of governors**)

Date:



OUTSTANDING MATTERS / ADDENDUM

OUTSTANDING MATTERS / ADDENDUM

Matter and page reference in preliminary report	Summary of Audit Committee Discussions	Follow up work performed (including misstatements Identified)	Conclusion	
Update on Subsequent Events review (we request this immediately before	Not discussed at Audit Committee. Discussed with David	David Dobson has confirmed that, as of 14 December 2020 (the date of our counter-signature of the FY20 financial statements) there are:	No issues arising. Matter closed.	
sign off of financial statements)	Dobson, Head of Finance.	 No subsequent events from 1 August 2020 to date, that are of such significance that they would require disclosure in the financial statements 		
		• No fraud, or attempted fraud from 1 August 2020 to date		
		 No litigation or claims, or breaches of laws and regulations, from 1 August 2020 to date 		
Re-rating of DB pensions risk from 'normal' to	Not discussed at Audit Committee.	In our Audit Planning Report of 19 May 2020, we assessed DB pension scheme liability as a 'normal' risk.	No issues arising - we are content that the pension scheme liability	
ʻsignificant' risk		During the audit execution stage of our audit, following receipt of the Mercer pensions report from management, we re-rated this risk as 'significant', given the quantum of the figures and the impact on the College balance sheet.	is correctly disclosed in the balance sheet, and that the entries on the Statement of Comprehensive Income are also fairly stated.	
		We extended our work in this area to gain sufficient assurance over this very material balance.		
Rating of 'regularity' as a significant risk	Not discussed at Audit Committee.	Further to the issue of our Audit Planning Report of 19 May 2020, we assessed 'regularity' as a significant audit risk, as we express a separate explicit opinion on this topic.	No issues arising - our regularity testing did not suggest any inappropriate application of income or expenditure in the year.	

FOR MORE INFORMATION:

Helen Knowles Audit Director and RI

m: 07581 463 074

e: helen.knowles@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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