MANAGEMENT LETTER

Blackburn College

Year ending 31 July 2025

HLB THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

MENZIES
BRIGHTER THINKING

Contents

MENZIES
BRIGHTER THINKING

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 appreciate that you will already be aware 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 comment on the College's performance for the year and 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.

Menzies LLP

Menzies LLP **Date 12 December 2025**

KEY AUDIT ISSUES

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 issue per audit plan overview	Audit procedures and results
Assessment of Fraud Risk 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. Management Override (significant)** 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, and we understand the Board of Governors review the risk register regularly. **2. Revenue Recognition (elevated)** 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's main source of income is received from the Department for Education (DfE); previously the Education and Skills Funding Agency (ESFA). The DfE 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 DfE funding, along with other material income streams, has been 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. Audit procedures covered the following: - Meeting management to discuss fraud related risks, the policies around fraud and the risk of material misstatement in the financial statements; - Review of material estimates and critical and key accounting judgments; - Reviewing the College's anti-fraud policies and counter fraud strategy; - Reviewing any relevant Internal Audit work; - Reviewing the risk register; - Reviewing the IT controls over the management of student numbers and individual learner records system; - Assessing and reviewing the controls over Education income and other material sources of income, for example capital grants and tuition fees. - Assessing and reviewing the controls over cash and the segregation of duties in place. - Reviewing 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. - Reviewing any journals raised after the management accounts for the year ended 31 July 2025 were produced. - Reviewing manual journals using data analytics procedures. - Considering management bias of the financial results through the use of journals and management estimates such as provisions and accruals. **Our work in this area was concluded satisfactorily.**

KEY AUDIT ISSUES

Audit issue per audit plan overview	Audit procedures and results
Pensions (elevated) The College participates in the Teachers' Pension Scheme (TPS) and the Lancashire Local Government Pension Scheme which requires disclosure in the financial statements. The TPS is included in the financial statements as a disclosure note only. The risk 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 with scheme Actuary to undertake calculation 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 2025. ISAs 500 and 540 require is 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 considered in the going concern review along with future contribution rates payable.	This year, across the further education sector, many defined benefit schemes have either moved into a significant net asset position, or the asset has increased in value from the previous year, including the College's LGPS scheme. The actuarial report reported an asset position at 31 July 2025 of £32.134m which is an increase of £11.950m on the 2023/24 asset position of £20.184m . FRS 102 requires that a surplus in a defined benefit scheme is only recognised as an asset to the extent that it is recoverable either through reduced contributions in the future or through refunds from the plan. As at 31 July 2025, the pension valuation report and supporting documents from the actuary have calculated an asset ceiling amount which is £501k (the asset ceiling being the capped amount the actuary has determined is recoverable). This is calculated as the present value of the future service costs less the FV of future contributions. We have undertaken the following testing: - Review of the central methodology, including key assumptions, of the calculation of the LGPS actuarial valuation with reference to an external pension specialist. - Review of the information provided by the College to the actuary to ensure the completeness and accuracy of the data. - Review of the LGPS actuarial valuations and the assumptions made by the actuaries to ensure the assumptions are consistent with wider sector expectations, including our own actuarial advice, or that any differences are understood and are reasonable. - Consideration of whether a pension scheme asset, and at what amount, should be reflected in the financial statements. - Tested a sample of employees from the scheme to assess if the employee and employer pension contributions have been made in accordance with the requirements of the pension scheme. - Reviewed the accuracy of the LGPS journals processed at the year-end to ensure the postings in the financial statements are consistent with the actuarial reports. - Reviewed the disclosures and the notes to the accounts to ensure they comply with Section 28 of FRS 102. **Our work in this area was concluded satisfactorily.**

KEY AUDIT ISSUES

Audit issue per audit plan overview	Audit procedures and results
Regularity (Other) The College Accounts Direction and Framework for auditors and reporting accountants of colleges ("the Framework") 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 Framework, 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. - Compliance with laws and regulatory requirements. - Internal controls effectiveness and appropriateness. - Expenditure has been made in accordance with expectations of the use of public funds. - Procurement procedures have been applied in line with the College's documented procedures. - Government 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.**

KEY AUDIT ISSUES

Audit issue per audit plan overview	Audit procedures and results
Capital Investment (Other) The College currently has a funded capital programme which includes spending on areas such as infrastructure. In 22/23 the DFE approved a project, funded by the Department for Education's (DfE) Further Education Capital Transformation Fund, to refurbish the Victoria Building. The College will contribute £3.3m, with £2.2m having already been invoiced to date. During the year the College incurred expenditure of £597k in relation to the launchpad centre. The College has recorded this in capital, with a full impairment of the balance in the year due to the uncertainty of the economic benefit arising from the assets. The audit risk concerning investment is around the additions not being correctly authorised or recorded properly; or capitalised and depreciated correctly in line with accounting policies and standards.	During the audit we undertook the following procedures: - Assessed the accounting policies for capitalising fixed asset overheads; - Assessed any indication of impairment during the year; - Reviewed the useful economic lives of asset classes to ensure they accord with best practice in the sector; - Tested a sample of capital expenditure additions to supporting documentation to ensure the classification is correct; - Tested a sample of fixed asset disposals in the year; - Considered whether there is any evidence of impairment; - Performed a proof in total test on the depreciation charge for the year; and - For completeness of expenditure, checked that accruals have been made for capital expenditure incurred up to 31 July 2025 but not invoiced. - Review the accounting transactions for the College's contributions to the Victoria Building project and review the disclosures in the accounts. - Review the accounting transactions for the Launchpad building assets and review the updated disclosures in the accounts within the accounting policies and fixed asset note. **Our work in this area was concluded satisfactorily.**
The use of funds as required by the Office for Students (other) 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.**

KEY AUDIT ISSUES

Audit issue per audit plan overview	Audit procedures and results
Loan Covenants and Treasury Management (other) At 31 July 2025 the College had 2 loans with Santander totalling £5.228m. The loans are repayable by instalments up to July 2038. The loans are a mix of fixed rates and floating rates, with £936k of the outstanding loan balance at year end having 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.	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 2025/26 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.**

INDEPENDENCE

Ethics and Independence

In the UK and Ireland, auditors are subject to the ethical requirements of the Financial Reporting Council's 2019 Revised 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 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.

The fees, excluding VAT, for the non-audit services for 2024/25 and 2023/24 are set out below:

Additional Services	Fees 2024/25	Fees 2023/24
Regulatory assurance	As included in audit fee	As included in audit fee
Teacher's pension Scheme Assurance report	£1,800	£1,200
Taxation Services	£575	£575

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

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES AND 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 play 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 and impairment, bad debt provision, dilapidation provision, allocation of expenditure and the valuation of the LGPS.

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.

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. We identified no such misstatements.

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.

MANAGEMENT REPRESENTATION LETTER AND AUDIT OPINION

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.

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

There are specific matters on which we have requested Board representation to support the conclusions and evidence provided for our audit opinion:

- Pension - *We have been provided with information, including details from the scheme actuary, to support the accounting treatment to restrict the pension asset to £501k on the Balance Sheet (and are satisfied that the asset does not meet the criteria for recognition under FRS 102 which is disclosed appropriate).*

- Victoria Building accounting treatment - *We have considered the accounting treatment of the costs of ongoing refurbishment of the Victoria Building, and we are satisfied that we have recorded the transactions in accordance with S11.7 of the FE SORP.*

- Capitalisation of Launchpad adaptations - *We have considered the accounting treatment of the costs incurred in relation to the Launchpad centre and we are satisfied that we have recorded the transactions in accordance with FRS 102 s17; and that the related impairment reflects our consideration of the economic benefit associated with the assets.*

- Dilapidations provision - *We have considered the requirement for recognising a provision in relation to the dilapidations on the Launchpad building, and we are satisfied that the provision reflects a reliable estimate for the anticipated costs expected to be incurred at the end of the lease.*

We expect to provide an unmodified statutory audit opinion in respect of the year ended 31 July 2025 subject to satisfactory receipt and review of the following:

Independent 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 Independent Reporting Accountant's Report on Regularity.

We 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 have provided an unmodified opinion on Regularity in respect of the year ended 31 July 2025.

AUDIT OPINION AND AUDIT ADJUSTMENT

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.

Our assessment of materiality was based on the financial statements provided prior to the audit.

Adjusted differences

Our audit procedures have been designed to provide reasonable assurance that the financial statements are free of material misstatements. For the purpose of this audit, materiality has been calculated at £821,570 (Base), £616,177 (Performance), and £41,078 (Triviality). This has been calculated by reference to expenditure.

Summary of adjusted misstatements

We note that the following adjustment were identified and made to the financial statements during the fieldwork:

- It was noted that adaptation costs of £597k in relation to the launchpad centre had been included in expenditure – Under FRS 102 s17, the costs should be recognised as capital expenditure within fixed assets. However due to managements assessment of the lack of future economic benefit of the centre, the assets have been fully impaired in the year. These adjustments have been reflected within the financial statements along with applicable accounting policy updates;
- It was noted that no pension asset value had been disclosed within the financial statements, however the College met the FRS 102 criteria for asset recognition. As per the actuary report, an asset ceiling value of 501k has been recognised, representing the total pension asset to the extent that it is recoverable.
- It was noted that the financial statements did not include a disclosure of the operating lease for the Launchpad centre. We have notified management who have updated the latest version of the accounts to reflect this;

Unadjusted misstatements

Uncorrected misstatements identified relate to:

- We noted that dilapidation provisions of £275k for the launchpad centre had been provided for at year end. In order to meet the recognition criteria under FRS 102 s21, we have advised management to obtain a third party valuation in order to provide a reasonable and reliable estimate of the expected dilapidation costs expected at the end of the lease. A valuation of £450k + VAT was received, and therefore under the accounting treatment, the provision amount should be spread over the term period of the lease. This would be calculated as £25k + VAT, and therefore the error is representative of an overstatement of provisions and understatement of surplus of £245k.
- We noted from our cut-off testing in expenditure that £33,503 of invoices dated prior to the year end had not been recorded on the ledger. It was noted that these balances all related to works which had not yet begun. The error is therefore representative of an understatement of Trade Creditors and understatement of Prepayments of £33,503.

ACCOUNTING AND INTERNAL CONTROL SYSTEMS

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 reviewed 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.

We identified no such weaknesses in our audit work undertaken in respect of the 31 July 2025 year end.

We made no recommendations in the previous year which we need to follow up.

MENZIES

BRIGHTER THINKING