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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 July 2019, 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 19 November 2019 and to receiving your input.

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

Audit Director

19 November 2019



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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 Audit Committee and Those Charged with Governance 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.

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Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters we anticipate issuing an unmodified audit opinion on the College's financial statements for the year ended 31 July 2019 in line with the agreed timetable.

The following matters were outstanding at the date of this report. We will update you on their current status at the Audit Committee meeting at which this report is considered:

- Prior to signing off we will review the ESFA reconciliation statement for financial year 2018/19 to ensure there are no significant adjustments to the ESFA clawback provision - statement issued in November/December
- · Final review and approval by you of the Members' report
- Final accounts preparation amendments review
- Subsequent events review
- Management representation letter to be approved and signed
- Audit requests from other grant income outstanding

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the individual financial statements of the College.

Regularity report

We are also required under the ESFA 'Post-16 Audit Code of Practice 2018 to 2019' 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 scope of the work and the form of our report are set out in our engagement letter dated 11 July 2017.



THE NUMBERS & OTHER MATTERS

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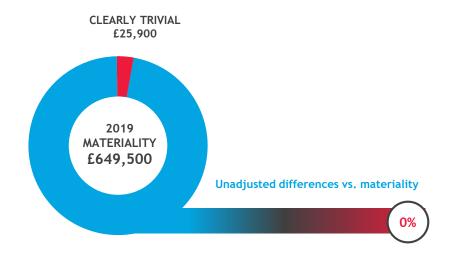
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Final Materiality

Materiality for the College was set at 1.75% of incoming resources for the year. At planning our materiality levels were set based on the reforecast figures as at April 2019, this has been updated to reflect the actual result for year ended 31 July 2019.

There were no changes to final materiality percentage thresholds and triviality from that reported in our planning report.



Unadjusted audit differences

We have not identified any unadjusted audit differences.

We have identified one audit adjustment that has been corrected. Please refer to page 12 for further detail.

Annual report

In addition to our objectives regarding the financial statements, we have also:

- Read and considered the 'other information' contained in the Annual Report such as the additional narrative reports. We have considered whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit. No instances were identified.
- For statutory other information such as the Strategic report and the Statement of Corporate Governance and Internal Control, we have formed 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. We have no exceptions to communicate to the Board.

Independence

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

Financial reporting

- We have not identified any non-compliance with accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.

AUDIT RISKS

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AUDIT RISKS

As identified in our audit planning report dated 23 May 2019 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 direction of the efforts of the engagement team.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	Specific Letter of Representation Point
Revenue Recognition	No	No	Yes	No	No
Management Override	No	No	No	No	Yes
Going concern	Yes	No	No	No	Yes



Areas requiring your attention

REVENUE RECOGNITION

Significant Risk

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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 judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

Letter of Representation point

Risk description

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 have obtained the ESFA funding reconciliation statement for 2018/19 and agree the funding to ensure that there are no significant clawbacks due to the ESFA (currently outstanding); and
- 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 by 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. We identified an audit adjustment with regard to deferred income of £28k, which has subsequently been corrected. Please refer to page 12 for further detail.

Other income

Other material income streams include other grants and contracts, 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

Audit matter concluded with no significant issues identified.

MANAGEMENT OVERRIDE OF CONTROLS

Significant Risk

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

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

Letter of Representation point

Risk description

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.

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

Work undertaken:

- A review and verification of large and unusual journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics e.g. postings at weekends and entries posted by ex-employees to filter the population of journals;
- We reviewed accounting estimates, including those used in the assessment of impairment and going concern;
- We reviewed management's actuarial assumptions and disclosures in relation to the defined benefit pension scheme; and
- Reviewed audit differences for indications of bias or deliberate misstatement.

Conclusion

Audit matter concluded with no significant issues identified.



GOING CONCERN

Significant Risk

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There are various external and internal factors which increase the risk around the going concern nature of the College.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

Letter of Representation point

Risk description

The funding provided by the ESFA is based on the previous year's student numbers, which results in a potential mismatch between funding and expenditure depending on how well the College can adapt to changes in activity levels and creates challenges for working capital management.

The most recent Ofsted inspection rating of 'requires improvement', coupled with the competition in the local area and the current demographic in Blackburn, have resulted in a lower number of students enrolling at the College which will reduce the level of funding over the next couple of years.

There has also been greater competition from universities and other colleges that provide HE.

The College has also renegotiated its covenant terms with Barclay's loans in the year. This was after the Operational Leverage covenant was identified as close to being breached during the year.

Work undertaken:

- We have challenged the forecasting methodology around the covenant calculations for future periods.
 We have sense checked the basis for these calculations going forward and made our own assessment on their respective accuracy.
- We have reviewed the long term forecasts prepared by management, challenging the underlying assumptions and agreeing where relevant to supporting documentation;
- We have reviewed the financing arrangements in place and considered the impact of renewal dates on the going concern assumption;
- We have reviewed board meeting minutes and papers for confirmation that those charged with governance have challenged forecasts and management financial information to support the assessment of going concern made;

- We have obtained the ESFA funding statement for 2019/20;
- We have discussed with management the update on Student recruitment to date against budget;
- Prior to signing off we will review the ESFA reconciliation statement for financial year 2018/19 to ensure there are no significant adjustments to the ESFA clawback provision:
- We have discussed with management the update on the Ofsted rating 'requires improvement' and the action plan in place to address their concerns; and
- We have recalculated the College's Financial Health assessment.
- We have reviewed the correspondence with Barclay's on the renegotiation of a covenant at year end and can confirm that no breach occurred.

Conclusion

Audit matter concluded with no significant issues identified.



OTHER MATTERS REQUIRING FURTHER DISCUSSION

The following are additional matters arising during the audit which we would like to bring to your attention:

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Fraud and error We are required to discuss with the Audit Committee the possibility of material misstatement, due to fraud or error.

We are informed by management that they consider the risk of material fraud occurring in the College to be low and that there have not been any cases of fraud or error during the year, to their knowledge.

We consider this area throughout the audit process. We reviewed the fraud register and also reviewed the results from internal audit engagements to determine any actual, suspected or alleged fraud known to them. We discussed with management any knowledge they have of suspected or alleged fraud.

We considered management's process for identifying and responding to the risks of fraud, including the nature, extent and frequency of such assessments. In particular, we made enquiries of management outside of the finance function where the risk of fraud could originate.

We have not identified any issues from the work performed during our audit. We ask that board members advise us if they do not concur with the assessment made by management in your management representation letter to us.

Regularity audit

We are also required under the ESFA 'Post-16 Audit Code of Practice 2018 to 2019' 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.

We developed a regularity programme to ensure compliance with the ESFA requirements, and in addition our testing of controls and substantive items of expenditure ascertained whether in all material respects funds were used for the purposes given (including donations and all sources of grant funding).

Inherent in this, and a change from the previous framework which came in last year, was the mandatory requirement for Colleges to complete the Self Assessment Questionnaire to underpin the audit approach.

No issues identified.

Related parties

We need to consider if the disclosures in the accounts concerning Related Party Transactions are complete and adequate and in line with the Memo of Assurance and Accountability.

We documented the related party transaction identification procedures in place, reviewed relevant information concerning any such identified transactions and made enquiries of management.

We requested all those considered to be part of key management personnel (the Senior Management team and Governors) complete a form to declare any interests.

We reviewed ledger transactions for any related parties not identified as part of the above management procedures.

We are not aware of any related party transactions that have not been disclosed in the financial statements.

DEFINED BENEFIT PENSION SCHEME

LGPS assumptions - discount rate & RPI Inflation benchmarking

X = Blackburn College

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Background

The assumptions feeding through into the LGPS assumptions are based on market conditions and therefore should not have significant variations across the sector, subject to changes in scheme durations and scheme specific variations.

On the current page we set out the College's Discount Rate and RPI Inflation assumptions against those used by our HE and FE clients that belong to an LGPS, both of which are key assumptions in the actuarial calculations.

Discount Rate

The higher the duration of the Scheme, typically the higher the discount rate, as the corporate bond yield curve is upward sloping at lower durations up to around 25 years.

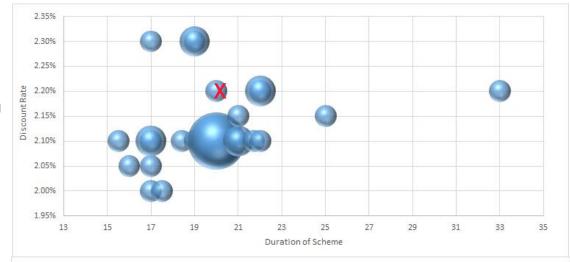
The graph to the right is a bubble chart demonstrating the position of the discount rates against the duration of the schemes. The College's chosen discount rate is 2.2% - this is slightly higher than the average and provides a lower liability for the College.

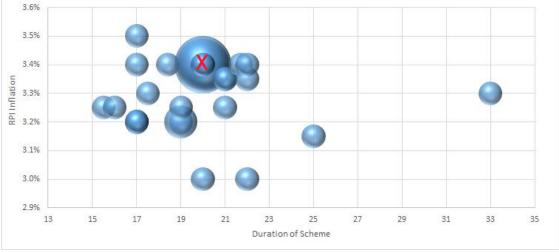
RPI Inflation

The RPI Inflation assumption is used for pension increases in payment and to revalue pensions prior to retirement.

Our expectation are that the Inflation curve is broadly flat for durations up to 20 years, and then starts to reduce thereafter (possibly due to expectations that RPI might change to be more similar to CPI over the long term).

The College's RPI Inflation is 3.4%. This is in line with what is seen in other colleges, RPI up to 3.6% is within the Bank of England's expectations.





ADJUSTED AUDIT DIFFERENCES

Details for the current year

We are required to bring to your attention any adjusted and unadjusted audit differences identified during the course of the audit. Note that no unadjusted differences were identified.

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	Income and expenditure		Balance sheet		
Adjusted audit differences	£'000	£'000	£'000	£'000	£'000
Deficit for the year before adjustments	(1,175)				
Adjustment 1: HE Tuition Fee incorrectly deferred into 2019/20					
DR Deferred Income		-	-	28	-
CR Tuition Fee Income		-	28	-	-
Total Adjusted audit differences		-	28	28	-
Adjusted deficit for the year	(1,147)				

INDEPENDENCE

INDEPENDENCE

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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.

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 2019.

Details of services, other than audit, provided by us to the College during the period and up to the date of this report were provided in our planning report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the College's 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.

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 Standard or the IESBA Code of Ethics as appropriate 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.

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Fees summary for year ended 31 July 2019

	£	£
Blackburn College Statutory Audit	26,530	
TPS Audit	750	
Total fees		27,280



SOUNDBITE UPDATES

SOUNDBITE UPDATES

Keeping you informed

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OUR RESPONSIBILITIES

OUR RESPONSIBILITIES

Responsibilities and reporting

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Our responsibilities

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Audit Quality Review RESULTS 2018/19

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 company financial statements. We report our opinion on the financial statements to the members.

We are also required to report on the consistency of the Strategic report and Directors report with the Financial Statements and whether they have been prepared in accordance with the requirements of the Companies Act.

We are also required to report on the consistency of the Strategic report and Directors report with the rest of the financial statements and whether it has been prepared in accordance with the requirements of the Companies Act and the Further and Higher Education Act 1992.

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.	Please see the 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 REVIEW RESULTS 2018/19

BDO Performance

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Audit Quality Review RESULTS 2018/19

Overview

The FRC released their Audit Quality Review results for the 7 largest accountancy firms in July 2019 for the review period 2018/19. A copy of all of the reports can be found on the <u>FRC Website</u>. We are very proud of our results in this review period where, for the second year running, 7 of the 8 files reviewed were assessed as either good or requiring only limited improvements.

Firm's Results

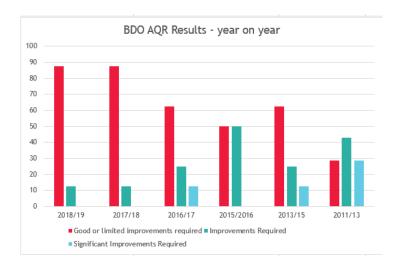
The graphs demonstrates our performance in relation to the other 6 largest firms and our continuous improvements and maintenance of that improvement over the last 6 review periods .

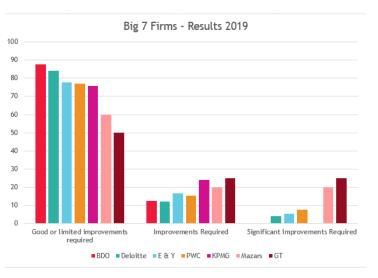
We include details of our model 'The Cycle of Continuous Improvement'. We acknowledge that the firm has performed well over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively with issues as they arise. This also highlights how our program of root cause analysis plays an important role in high audit quality.

We would encourage you to read our report which includes:

- details of the root cause analysis we have been undertaking to address issues raised:
- the actions we have/are undertaking to address the issues raised by the AQR; and
- a number of areas of good practice the AQR review team identified whilst undertaking their review.

More details will be included in our Transparency Report which will be available on our www.bdo.co.uk





AQR RESULTS 2018/19

BDO Performance

Live files require:

 Review of audit quality by senior team members

and may require:

Respond

- Hot review of financial statements
- Technical support for audit work
- Appointment of engagement quality control reviewer

Completed files may be subject to:

- Internal Audit Quality Assurance Review
- External review from AQR or QAD

Identify

matters

Considerations of how to address: Behavioural matters

- Operational changes required
- Cultural matters to be escalated

Responses may include:

- Updating operational practices
- Embedding matter into performance review and development process for staff
- Staff coaching
- · Amending audit approach firmwide or for specific assignments
- Targeted messaging to relevant audiences (e.g. grades, ranks or sector specialists)
- · Updated guidance material

Responses inform training plans

Cycle Nature of matters may be:

- Client/assignment specific issues
- Common findings/repeating issues that have need to be tracked and/or escalated
- Firm-wide matters
- "Best practice" examples

May be at Individual assignment or 'whole-firm' level:

- Identification and assessment of root cause
- Productive process to learn from matters and improve quality

Perform the

audit work

of

Continuous

Improvement

Perform a **Root Cause**

analysis

- "Best practice" examples treated in the same way as "issues"
- Consideration of appropriate responses to issues identified, proposed and escalated as appropriate

FOR MORE INFORMATION:

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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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