Management Letter

Blackburn College

Year ending 31 July 2024

Contents

Introduction

Our audit of the financial statements of Blackburn College (The College) is now substantially complete. The purpose of this letter is to bring to your attention the findings from our audit. We 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.

Beever and Struthers

Beever and Struthers **Date** 12 December 2024

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 (significant) ISA 240 "The Auditor's responsibility to consider fraud" requires us to consider the risk of fraud and the impact that this has on our audit approach. There is a presumed significant risk of fraud in two areas: **1. Revenue Recognition (significant)** 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 Education and Skills Funding Agency (ESFA). The ESFA notify the College of the allocations in advance of each financial year and provide statements of grant payments made in respect of the year. Tuition fees are fees charged directly to students for courses undertaken. This income can be paid directly by students, or via third parties. The cut off procedures for the ESFA funding, along with other material income streams, has been reviewed as part of our final audit visit. **2. 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.	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 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 2024 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 (significant) 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 2024. 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 2024 of £20.184m which is an increase of £1.653m on the 2022/23 asset position of £18.531m. 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. Management's judgement is that there is insufficient evidence to support the recoverability of the plan's surplus, particularly as the most recent pension contributions have increased. Any refunds from the plan are contingent on future events. The surplus has therefore been restricted to £nil. 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. • 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 (significant) The College Accounts Direction and Post-16 Audit Code of Practice require the statutory auditors to undertake a limited assurance review in order to provide an Independent Reporting Accountants' Report on Regularity. The report provides a limited assurance conclusion about whether the expenditure disbursed, and income received by the College in the financial period have been applied in line with the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.	We have documented the key financial systems and control procedures in place. We have reviewed their effectiveness and undertaken tests of control. We have undertaken testing as set out in the Audit Code of Practice, which covers the following areas: • Review of the Chair of Governors and Accounting Officer's Statement on Regularity, Propriety and Compliance. • Delegated authorities have been complied with. • 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
Going Concern (significant) The College's budget and forecasts are crucial in the ongoing management of the business and in demonstrating the viability of the organisation. The guidance to College's included in the College Accounts Direction is as follows: • develop and implement mitigating actions and processes to ensure that you continue to operate an effective control environment. • consider how you will secure reliable and relevant information, on a continuing basis, in order to manage the future operations. • pay attention to capital maintenance, ensuring that sufficient reserves are available and sufficient resources remain to continue to meet the College's needs. • the need for narrative reporting to provide forward-looking information that is specific to the entity, and which provides insights into the Board's assessment of business viability and the methods and assumptions underlying that assessment. • going concern and any associated material uncertainties, the basis of any significant judgements and the matters to consider when confirming the preparation of the financial statements on a going concern basis. • the increased importance of providing information on significant judgements applied in the preparation of the financial statements, sources of estimation uncertainty and other assumptions made; and • judgement required in determining the appropriate reporting response to events after the reporting date and the extent to which qualitative or quantitative disclosures may be appropriate. There were a number of significant financial challenges in the sector for 2023/24 which included inflationary pressures and upward pressure on staff costs.	During the audit we performed the following procedures: • review of the budget setting process and procedures. • review of the College's 2024/25 budget and the underlying assumptions. • review of longer-term budgets, business plans and cash flow forecasts, including the College's assessment of going concern and disclosures in the financial statements. • review of short- and long-term cash flow monitoring procedures. • checking the arithmetic accuracy of the above budgets and forecasts. • sensitivity analysis on the above budgets and forecasts. • review performance versus budget for the year. • We have considered any potential impact of the cyber incident in October on our assessment **Our work in this area was concluded satisfactorily.**

Key Audit Issues

Audit issue per audit plan overview	Audit procedures and results
Capital Investment (significant) 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. 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 2024 but not invoiced. • Review the accounting transactions for the College's contributions to the Victoria Building project and review the disclosures in the accounts. **Our work in this area was concluded satisfactorily.**
Events not driven by the financial records (other) A number of disclosures in statutory accounts are not driven directly by the financial system and records. Examples of these include operating lease disclosures, post balance sheet events, and related party transactions.	Our audit work in this area covered: • Review of Board and Committee meeting minutes. • Review of declaration of interest forms for all Governors and Key Management Personnel to inform our understanding of related party relationships. • Review on a sample basis of Companies House Directorships and Charity Commission Trusteeships held by Governors and Key Management Personnel to confirm completeness of the related party relationships declared on the declaration of interest forms. • System searches for transactions with all related parties identified through the above 3 procedures. The results of these system searches were used to corroborate the completeness and accuracy of the related party transactions disclosed in the financial statements.

Key Audit Issues

Audit issue per audit plan overview	Audit procedures and results
Events not driven by the financial records (continued)	• Discussed any related parties, capital commitments or operating leases with the relevant Finance staff. • General consideration throughout the audit process of items that require disclosure in the financial statements. **Our work in this area was concluded satisfactorily.**
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.**
Wages and salaries (other) Payroll is the largest single expense at the College and therefore is a significant area in the audit. Total pay costs reported in the 31 July 2024 statutory accounts were £24.042m. The audit risks concerning payroll are that leavers in the year have not been correctly removed from the payroll or that fraudulent starters have been added to the payroll and paid a salary. The valuation of the payroll expense as declared in the accounts is also a risk given increasing pressures on budgets in the sector.	We have documented the procedures in place for making amendments to the payroll each month to ascertain the level of controls over this process. The procedures in place for the addition and removal of starters and leavers to the payroll were documented and tests conducted to ensure the procedures are working effectively. Reconciliations between the accounting system and payroll reports have been completed and variances explained. **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 audit risk) At 31 July 2024 the College had 2 loans with Santander totalling £5.784m. The loans are repayable by instalments up to July 2038. The loan is a mix of fixed rates and £1.8m of the loan has a floating interest rate which means the rate can increase and decrease depending on economic and financial market conditions. The College has advised that the risk of significant interest payable is minimal. In addition the loan has a covenant attached within the loan agreement terms and conditions; a potential breach of the covenant is included in the Risk register.	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 2024/25 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 2023/24 and 2022/23 are set out below:

Additional Services	Fees 2023/24	Fees 2022/23
Regulatory assurance	As included in audit fee	As included in audit fee
Teacher's pension Scheme Assurance report	£1,200	£1,100

We consider that the provision of these audit related 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, bad debt 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 £nil on the Balance Sheet and are satisfied that the asset does not meet the criteria for recognition under FRS 102 which is disclosed appropriately.

Harpur vs Brazel - We have considered the impact of the Harpur Trust vs Brazel ruling by the Supreme Court and are satisfied that no adjustments to our existing policies and procedures are required. We have not received any claims from current or ex-employees in relation to this matter and no provisions have been calculated and included in the financial statements. It is our judgement that this matter would not have a material impact on the financial statements.

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.

We expect to provide an unmodified statutory audit opinion in respect of the year ended 31 July 2024.

Management Representation Letter and Audit Opinion

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 presented our management representation letter for signing at the same time as the financial statements.

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

We expect to provide an unmodified opinion on Regularity in respect of the year ended 31 July 2024.

Audit Opinion and Audit Adjustments

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

ISA 260 requires us to report to management on all uncorrected misstatements identified during the audit, and to include in this report how we have calculated materiality, and any misstatements identified during the audit which have been corrected. We are not required to report on corrected or uncorrected misstatements we believe are clearly trivial.

Materiality
Our 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 £745,580 (Base), and £37,279 (Triviality). This has been calculated by reference to expenditure.

Summary of adjusted misstatements
We note that the only adjustments to the initial draft of the accounts was in respect of the pension adjustment, which had a £NIL impact to the surplus recorded.

Unadjusted misstatements
Uncorrected misstatementsidentified relate to:

- We noted from our cut-off testing in expenditure that £66,525 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 £66,525.
- We noted from our debtors testing, that a credit balance of £49,457 representing a recharged amount, had been included in prepayments. The error is therefore representative of an understatement of Trade Creditors and understatement of Prepayments of £49,457.
- We note that based on the Final ESFA reconciliations provided, there is a proposed reconciliation balance for amounts due from the ESFA. This balance is not guaranteed at this stage and not considered material.

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's, 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 2024 year end.

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