Annual Audit Report
to the Board of Governors and the Auditor General for Scotland

Fife College
Year ending 31 July 2023

mazars

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Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

The Audit & Risk Committee
Fife College
Pittsburgh Rd
Dunfermline
KY11 8DY

20 December 2023

Dear Members,

Annual Audit Report – Year ended 31 July 2023

We are pleased to present our Annual Audit Report for the year ended 31 July 2023. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Annual Audit Plan which we presented to the Audit & Risk Committee on 23 May 2023. We have reviewed our Annual Audit Plan and concluded that the significant audit risks and other areas of management judgement documented therein remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact Mazars LLP.

Yours faithfully

Mazars LLP

1. Executive summary

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of Fife College (‘the College’) for the year ended 31 July 2023 and formed the basis for discussion at the Audit and Risk Committee meeting on 16 November 2023.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (‘the Code’) issued by Audit Scotland. We have the following conclusions:

Opinion on the financial statements	We issued an unqualified opinion, without modification, on the
Opinion on regularity	
Opinion on other requirements	We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely, that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	We concluded as follows against wider scope dimensions: • The College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, given the overall sector financial position, we consider that the College’s ability to remain financially sustainable over the medium to longer term, without significant additional funding or cost cutting, remains a risk; and • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Governors, which are appropriately reflected in their governance statement. • The College has effective arrangements, including budgetary control, that help the Board Members scrutinise finances. • The College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Status of our audit work

We have completed our work on the financial statements and wider scope work for the year ended 31 July 2023.

Internal control recommendations and misstatements

We did not identify any significant control weaknesses during our audit and have not raised any internal control recommendations.

To date we have not identified any misstatements through our audit work. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit & Risk Committee in a follow-up letter.

Our audit approach

We provided details of our intended audit approach in our Annual Audit Plan on 23 May 2023. We have not made any changes to our audit approach since we presented our Annual Audit Plan.

Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever-changing business needs. Our aim is to add value to Fife College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set materiality at the planning stage of the audit at £1,079,803 using a benchmark (1.75%) of total revenue. Our final assessment of materiality, based on the draft financial statements is £1,006,005 using the same benchmark. The decrease in materiality amount is due to the planning materiality was based in prior year amounts the current year amount was based on actual year-end figures.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	1,079	1,006
Performance materiality	701	653
Trivial threshold for errors to be reported to the Audit & Risk Committee	32	30

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts.
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Performance Materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherent risk level assessed, with a reduction of 10% applied for first year audit engagements. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 65% of overall materiality as performance materiality.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit & Risk Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

2. Audit of the financial statements

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Annual Audit Plan;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 13 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- feedback on the audit process.

Significant risks and key areas of management judgement

As part of our planning procedures, we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although our report identified significant risks at the planning stage of the audit in our Annual Audit Plan, our risk assessment is a continuous process, and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. Following the decision by management to undertake a valuation of the land and buildings, a significant risk was added in relation to the revaluation.

Management override of controls

Description of the risk

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements.
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Satisfactory assurance has been gained in respect of the presumed risk of management override of controls. We have no matters to report.

Revenue recognition

Description of the risk

There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This isbecause revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding.

This risk only applies to the non-grant income generated by the College. The risk has been rebutted in relation to grant income received by the College, given the highly regulated nature, and therefore the low inherent risk of this income.

How we addressed this risk

We addressed this risk through performing audit work over:

- The design and implementation of controls management has in place to ensure income is recognised in the correct period;
- Cash receipts around year end to ensure they have been recognised in the appropriate year;

  The judgements made by management in determining when non-grant income is recognised; and
- For major grant income, obtaining counterparty confirmation.

Audit conclusion

Satisfactory assurance has been gained in respect of the presumed risk of error in revenue recognition. We have no matters to report.

Expenditure recognition

Description of the risk

For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations.

The pressure to manage expenditure to ensure that budgeted outcomesare achieved increases the risk surrounding fraudulent reporting of expenditure.

How our audit addressed this risk

We have undertaken a range of substantive procedures including:

- The design and implementation of controls management has in place.
- Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the appropriate year.
- Testing material year end payables, accruals and provisions; and
- Reviewing judgements about whether the criteria for recognising provisions are satisfied.

Audit conclusion

Satisfactory assurance has been gained in respect of the risk of error in expenditure recognition. We have no matters to report.

Defined benefit pension scheme assets	**Description of the risk** There is a significant asset value used in calculating the Fife Council Pension Fund (FCPF) position as at 31st July 2023 and due to the nature of the pension scheme there is significant complexity in identifying the College's share of the assets. The complexity is created by factors such as: • The types of assets held by the pension scheme and their valuation bases; and • The calculation of the College's share of the overall • Scheme assets requiring the rolling forward of quarter end valuations.
	How our audit addressed this risk We have undertaken a range of substantive procedures including: • Obtaining confirmation from the pension fund of the total value submitted to the actuary and details of how the College's share of assets has been calculated. • Reviewing this confirmation and considering if the information provided is sufficient and challenge any inconsistencies noted.
	Audit conclusion There have been no significant findings arising from our review of the defined benefit pension scheme assets. .

Key Areas of Management Judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

Valuation of land and buildings

Description of the risk

The College's property, plant and equipment (PPE) portfolio totals over £110.9 million of assets (2022: £89.9million). The valuation of these assets requires expertise and significant estimation.

To meet the requirements of the accounting framework, the College values its property, plant and equipment annually. For 2022/23, the College obtained a full valuation from their external valuer.

The College's PPE totals £110.9 million, an increase of £21 million from 2021/22. This movement includes additions of £20.2 million of which £20.1 million relates to the new Dunfermline Learning Campus, depreciation of £3.4 million, disposals of equipment with zero net book value amounting to £536k and a revaluation gain of £1.03 million.

Given the significance of the balance within the financial statements, the number of assumptions that are made in the valuation and the additional capital activity occurring as part of the ongoing development of the Dunfermline Learning Campus, we assigned a significant risk to property, plant and equipment.

How our audit addressed this risk

We have undertaken a range of substantive procedures including:

- Examining the professional qualifications of the valuer;
- Challenge and substantiate the assumptions and the appropriateness of the date of the valuation used by management's valuer in completing the valuations;
- Considering the impact of any uncertainty arising from the professional valuation of college land and buildings, assessing against third party benchmark information where appropriate.
- Ensuring that valuations and impairments have been completed on the correct basis for each item and that movements are in line with expectation; and
- Assessing whether the report produced by the valuer has been correctly reflected in the accounts.

Audit conclusion

Satisfactory assurance has been gained in respect of the valuation risk in relation to land and buildings. We however noted a reduction of £5million in the Carnegie building. This drop in valuation reflects the change to asset life due to the proposed decision to dispose of the asset

Valuation of Pension liabilities

Description of area of focus

The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Fife Council Pension Fund (FCPF). While both are defined benefit schemes, it is not possible to identify the College’s share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme.

The College’s share of the FCPF’s underlying assets and liabilities is identifiable and is recognised in the accounts.

Given the scale of the liability recognised, a misstatement in the reported position could be material to the financial statements.

How we have addressed this area of management judgement

We have addressed the risk by:

- Considering the arrangements put in place, including existence of any relevant controls, for making estimates in relation to pension entries within the financial statements.
- Considering the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements throughthe use of our internal experts.

Audit conclusion

There have been no significant findings arising from our review of the defined benefit liabilities and associated disclosures in the financial statements.

Qualitative aspects of the entity's accounting practices.

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2022/23 and were appropriately tailored to the College's circumstances.

Draft financial statements and draft annual report were received from the College on 22 September 2023, prior to the start of audit fieldwork. Both draft financial statements and draft annual report were of a good quality.

Producing quality supporting working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers provided for audit were of a good standard and staff were responsive to our requests during the audit.

Significant matters discussed with management.

At 31 July 2023 the College's share of the Fife Council Pension Fund was recorded as £nil within the financial statements. At this date, the reports provided by the College's Actuary detailed a notional surplus, as the value of the defined benefit obligation was less than the fair value of the plan assets at that date, leaving a pension asset in place. Management made the decision not to recognise the asset due to inherent uncertainty regarding the future of the Pension Fund, and any possible impact on future employer contributions. We have had discussions with management as to the most appropriate accounting treatment and disclosure of the pension position and we agree with managements position on the pension assets.

Feedback on the audit process

We completed our audit in a hybrid manner with two onsite visits to the college and remotely. During the course of the audit, there were no significant difficulties and we have had the full co-operation of management. The draft accounts, working papers and annual report were all provided in line with the agreed timetable. We would like to express our thanks to management and officers for their co-operation throughout the audit.

3. Wider Scope

Our approach to Wider Scope work

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

- financial management;
- financial sustainability;
- governance and transparency; and
- value for money.

Dimension	Description	Our approach
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively	We have considered: • the monitoring of the effectiveness of internal control arrangements • whether the College's budgetary control system is timely and accurate • whether and how the College has assessed their financial capacity and skills
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the College's arrangements for financial planning and affordable and sustainable service delivery	We have considered: • the financial planning system in place for short-, medium- and long-term periods • the adequacy and accuracy of financial reporting arrangements • the reasonableness of affordability assumptions made in financial planning
Governance and transparency	Governance and transparency cover the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review	We have considered: • the effectiveness of internal control arrangements • the appropriateness of disclosures made in the Governance Statement • whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met
Value for money	Value for money concerns using resources effectively and continually improving services	We have considered: • the College's evidence of providing value for money. • the focus on improving value for money and the pace of change at the College.

Financial management

Dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion

Fife College has effective arrangements, including budgetary control, that help Board of Governors members scrutinise finances.

Financial Performance

The College is required to report financial performance under the HE/FE SORP, resulting in the reported deficit of £2,127k in the Statement of Comprehensive Income. However, as a central government body, the College is also required under the Accounts Direction from the Scottish Funding Council to report financial performance as an 'adjusted operating position'. We set out these required positions below:

	2022-23	2021-22
Operating income	57,486	61,703
Staff costs	(43,577)	(44,988)
Operating expenditure	(16,036)	(17,856)
Operating Deficit for the year (FE/HE SORP basis)	**(2,127)**	**(1,141)**

Operating income has decreased by £4.2m in the year. This is mainly as a result of reduced grant income received in the year. ESF grants ceased in the year resulting in a reduction of £600k. There was a further reduction in estate income released in the year which resulted in a £660k income reduction. Tuition income reduced in the year as there was reduced recruitment in the year.

In the prior year there was a new land grant release of £4.5m. This was reduced in the current year to £658k. This contributed sharply to the reduction in income. Furthermore, there was a reduction in childcare funds, a £189k reduction in the year. The remaining decrease and movement in the income is due to a general increase in funding which is applied to all Colleges due to increased funding from the Scottish Government.

Other income has improved this year due to an increase in venue income and increased income released from youth work data and healthcare pathway.

Staff costs decreasing are due to a decrease in the FRS 102 pension adjustment from £5.5m in 2022 to £1.2m in 2023 partially offset by the pay rise accruals.

Operating expenditure has decreased by £1.06m from the previous year. This is mainly due to a reduction in digital spend and premises project costs.

While showing an accounting deficit, we highlight that:

- The College achieved 98.6% of its student credit target confirming the level of funding in the financial statements; and
- The College achieved its financial targets in line with its plan.

Adjusted operating position.

The table above sets out the financial position in accordance with the SORP requirements. The table below reflects the 'adjusted operating position' as required by the Accounts Direction set by the SFC. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions and those that do not have an immediate cash impact on the College. Full details of the adjustments included are shown on page 15 in the accounts.

	2022-23 £'000	2021-22 £'000
Deficit before other gains and losses	(2,127)	(982)
Add back:		
- Depreciation (net of deferred capital grant release) on both governments funded and privately funded assets	2,117	1,736
- Pension adjustment – Net service cost (FRS 102)	1,262	5,562
- Pension adjustment – Net interest (income) /cost	(427)	536
- Non-cash pension adjustment – release of land grant	0	(4,561)
- Non-cash pension adjustment – Profit on disposal	0	(159)
Deduct:		
- CBP allocated to loan repayments and other capital items	(541)	(707)
Adjusted operating surplus	**284**	**1,425**

It is considered that the College is operating sustainably within its funding allocation.

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements in place at the College. Our work consisted of a review of budget monitoring reports and committee papers along with attendance at committees. Overall, we consider that the Board of Governors obtains regular and timely financial information that reflects the actual financial position.

We note that budget reports are produced on a timely basis and considered by the appropriate committee throughout the year. Budget reports and forecasts were appropriately updated based on prudent assumptions, there was considered to be no unreasonable movements throughout the quarterly forecasts and budgets considering the ongoing impact of the recovery from the Covid-19 pandemic.

The Financial, Commercial and Estates Committee considers the management accounting pack regularly, reporting to the Board of Governors. Minutes of the meetings document the level of challenge to the financial performance.

Internal controls

As part of our audit, we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have also considered the work of internal audit, from individual reviews of financial systems and their annual audit opinion on the control framework in place at the College.

We conclude that the processes and controls in place at the College are operating effectively. The College has all the expected control, risk, performance and financial arrangements in place. There are a series of regularity documents including standing orders, articles of governance, code of conduct, and financial regulations intended to ensure regularity of transactions.

Prevention and detection of fraud and irregularity

Management and the Audit and Risk Committee, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We have a responsibility to review the College's arrangements for the prevention and detection of fraud. Our audit work was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the arrangement in place to be satisfactory and identified no material misstatements resulting from fraud or irregularity.

Financial sustainability

Dimension

Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

Our conclusion

Fife College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. We considered the College's ability to remain financially sustainable over the medium to longer term and we have concluded that there are no issues with the financial sustainability.

Identified significant risks to our wider scope work

As part of our planning procedures, we considered whether there were significant risks that would impact on any of the four areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope and how we addressed the risk below.

Financial sustainability	**Description of the risk** During 2022/23, the College prepared a three-year forecast which highlights a future funding gap. The College has taken steps to identify areas where savings can be made to mitigate the funding gap in the FFR.
	How we addressed the risk We have addressed the risk by: • Reviewing the forecast financial position in the three-year financial plans submitted to SFC; • Considering alternative plans being considered by the College to ensure a balanced budget is achieved; and • Reviewing the financial reporting arrangements in place at the College.
	Wider scope conclusion During 2022/23, the College has prepared a three-year forecast which highlights a future funding gap. The College has taken steps to identify areas where savings can be made to mitigate the funding gap in the FFR. Given the level of sector wide uncertainties around future funding and of the general economic environment that has arisen following Covid-19, there is a risk the timing of the future funding gap could be accelerated, or made greater without the plans identified by the College being fully implemented and / or additional funding not being made available from the SFC. There are additional concerns arising in relation to the inflationary pressures in the construction of the Dunfermline Learning Campus which is being monitored on an ongoing basis. As a result, we consider that there remains a risk that the College will not remain financially sustainable in medium to longer term

Financial Planning

Fife College provides three-to-five-year forecasts to the SFC annually or as required. The College believes that the SFC will provide the liquidity funding required and therefore it is appropriate to prepare the accounts using a going concern basis.

This year, the College has produced a three-year Financial Forecast Return (FFR) to the SFC in line with current SFC guidance.

Adjusted operating deficit	(431)	(934)	(850)

Through the FFR process and other financial reporting throughout the year, the College and its Board of Governors have a clear view of the financial challenges and long-term risks faced. FFR planning assumptions, as advised by the SFC, have been considered fully before use.

The FFR approved by the Board in September 2022 projected a deficit of £431k for the 2023-24 year. The FFR for this period includes providing for the cost of living pay awards in line with public sector pay policy, and for the expected cost of implementing the support staff and middle managers job evaluation (as the expectation is that this would be paid in 2024). The outcome of this remains uncertain, and if negotiations result in higher levels than expected, this will have a further negative impact on the budget for 2023-24.

Further detail on the College's three-year forecast is included in the table below:

	Forecast 2023-24 £'000	Forecast 2024-25 £'000	Forecast 2025-26 £'000
Total Income	55,667	56,085	56,770
Staff costs	(41,198)	(41,201)	(41,437)
Total other expenditure	(16,984)	(17,902)	(18,267)
Operating deficit before other gains and losses	**(2,515)**	**(3,018)**	**(2,934)**
Add back: Depreciation – net of deferred capital grant	2,641	2,641	2,641
Less: Cash based priorities allocated to loan repayments	(557)	(557)	(557)
Adjusted Operating Deficit	**(431)**	**(934)**	**(850)**

These results are based on the assumptions provided by the SFC and are not deemed to be a fixed forecast or strategic plan. The College is actively considering a range of options in relation to the coming years and will continue to work to refine the income and costs reflected in their financial plans to better reflect actual expectations.

The forecasts have been completed based on the assumptions provided by the SFC on their website.

Looking ahead to the upcoming years, Management and the Board of Governors are fully committed to exploring all efficiency saving possibilities, new sources of commercial income and consideration of changes to working practices.

Asset Management and Estates Strategy

The Scottish Funding Council issued their grant offer letter formally to Fife College on 12th January 2023 confirming capital grant funding of £130.9 million for the construction of the Dunfermline Campus. Fife College executed the design and build contract with Balfour Beatty Construction Limited on 20th January 2023. Construction work on the new Dunfermline Learning Campus [DLC] is progressing well from a start on site in January 2023. The DLC build continues to proceed to schedule but faces significant ongoing cost pressures as procurement activity meets inflation challenges. The College has established a New Build Project Board which meets monthly to review the build progress and to monitor the financial pressures. Cost projections are requested by the College on a regular basis to better manage the situation, and a recent updated projection showed total costs as being over the current funding package. The College will continue to identify additional funding streams and look to optimise building options to ensure the project is managed appropriately. The College projects that the build will complete in early 2025 with a phased occupation taking place before the campus is fully operational from August 2025.

We consider that appropriate attention is given to the estate and assets and their continued development and improvement, and that their maintenance is factored into long term plans and discussions.

Governance and transparency

Dimension

The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review.

Our conclusion

Fife College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Governors, which are appropriately reflected in their governance statement.

Governance arrangements

Our work in this area has considered the overall governance arrangements in place at the College, reviewed the financial and performance reporting to the Board of Governors, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also attended Audit & Risk Committees during the year.

Financial papers submitted to committees are relevant and timely. Each paper has a summary setting out the purpose of the paper and the action required by the members. Minutes are understandable and contain detail of discussions and rationale for decision making.

At 31 July 2023, the board comprised of 18 Board members, including the principal, two student members, two staff members (one teaching and one non-teaching), and 13 external members.

The College does aim to have equality and diversity in their board representation, and this is considered actively at each round of recruitment alongside the strengths and skills required for the role to ensure the Board has sufficiently qualified and skilled members. It can be difficult to ensure an equal gender split of members depending on the applications for the vacancies the Board receive at the time of vacancy.

The key committees' membership comprises of, and are chaired by Board members, with each also containing the principal, with the exception of the Audit & Risk Committee. In addition, the Chair of the Board is also not permitted to be a member of the Audit & Risk Committee. Appropriate College officers attend committees and present reports as required.

During the year to 31 July 2023, Board meetings were held physically with the ability for attendees to dial in remotely. The Committees of the board were predominantly held online.

Governance Statement

As part of our audit, we have read the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework.

The governance statement confirms the College's compliance with the 2022 Code of Good Governance for Scotland's Colleges.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. We also consider that the governance statement has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audits provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by Azets. Internal Audit have attended Audit & Risk Committees throughout the year and have produced 8 reports to support the overall Annual Internal Audit Opinion. The opinion given by internal audit was: 'In our opinion, Fife College has a framework of internal controls in place that provides reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks'.

Transparency

Transparency means that service users and the public have access to understandable information about how the College is making decisions and using its resources. There is a commitment to transparency, with the minutes and papers of the Board of Governors and key committees being available on the website.

Value for Money

Dimension

Value for money concerns using resources effectively and continually improving services.

Our conclusion

Fife College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Performance management

The College delivered its Regional Outcome Agreement (ROA) target credits. The College achieved an adjusted operating surplus in the year. There is close monitoring of the delivery of the ROA and financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget to be appropriately managed. Through this management of the 2022/23 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected given the circumstances of the year.

Regularity

As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements. Regular expenditure and income that which has been incurred / obtained in line with guidance issued by the Scottish Ministers and the terms and conditions of funding of the Scottish Funding Council.

The College has arrangements to monitor the requirements of the Scottish Funding Council, Audit Scotland and other regulatory or advisory bodies to ensure it complies with the terms and conditions of funding including regular reporting of financial and operational performance to the Board of Governors and its committees.

Our review found an effective control environment exists over regularity of expenditure and receipts. No instances of non-compliance with Scottish Funding Council terms and conditions were noted.

4. Our fee

Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Annual Audit Plan, presented to the Audit & Risk Committee on 23 May 2023. Having completed our work for the 2022-23 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2022-23	Final fee 2022-23
Auditor remuneration	51,420	51,420
Pooled costs	(7,540)	(7,540)
Audit support	1,320	1,320
Sectoral Adjustment cap	7,200	7,200
Total Fee	**52,400**	**52,400**

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

Appendix A

Independence

As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Annual Audit Plan and therefore we remain independent.