



**Report to the Audit Committee, the College and the Auditor General for Scotland on
the 2022/23 audit
20 September 2024**

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Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our report to the Audit Committee (“the Committee”) of Inverness College (“the College”) for the 2022/23 audit. The report summarises our findings and conclusions made in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Committee in May 2023.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Our financial statement audit is complete. We have issued an unmodified audit report.

We provided management with comments and suggested changes based on review of the draft Annual Report and Accounts. We have confirmed that all necessary changes have been made.

The auditable parts of the Remuneration and Staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8.

We have identified two material adjustments which have been corrected by management, alongside one unadjusted misstatement in excess of our reporting threshold of £31k. Details of all misstatements are included in the appendix to this report.

Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Our financial statement audit is complete.

Conclusions from wider scope audit work

See pages 19 to 26 of this report for detailed conclusions of our wider scope work.

Control Findings

Control findings and recommendations are included on page 31 of this report.

Added value

Our aim is to add value to the College by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the College promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also included our “sector developments” on page 29 where we have shared our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the College sector.

Pat Kenny
Lead audit partner

Annual Report and Accounts Audit



Quality indicators

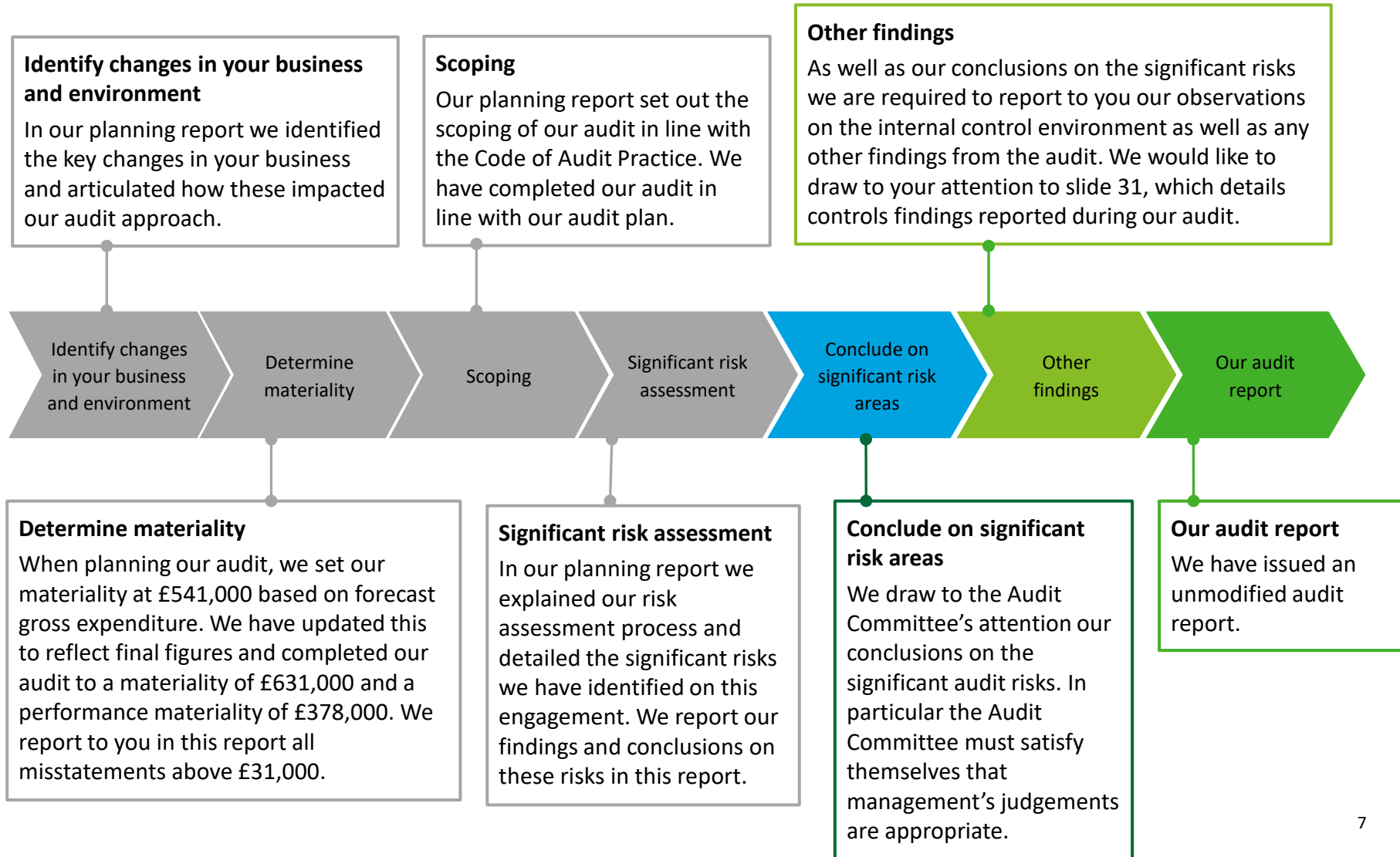
Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements	●	Prompt delivery of working papers regarding management judgements.	N/A
Adherence to deliverables timetable	●	No issues to raise regarding adherence to deliverables timetable.	N/A
Access to finance team and other key personnel	●	Active involvement of the finance team throughout the course of the audit process.	N/A
Quality and accuracy of management accounting papers	●	Management accounting papers prepared to the expected quality and accuracy.	N/A
Quality of draft Annual Report and Accounts	⚠	A number of presentational and disclosure points raised on the draft version of the Annual Report and Accounts.	Slide 18.
Response to control deficiencies identified	●	Two control deficiencies identified; further details can be found on slide 15.	Slide 15.
Volume and magnitude of identified errors	⚠	Two material misstatements identified during the audit.	Slide 32.

Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Satisfactory	
Property valuations			Satisfactory	
Operating within the funding provided			Satisfactory	
Completeness of Income			Satisfactory	
Capital Financing Arrangements			Satisfactory	

Consistency of judgements with Deloitte's expectations



Inconsistent



Improvement required



Consistent

Controls approach adopted



Assess design & implementation

Significant risks (continued)

Management override of controls

Risk identified

Management is 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.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have tested the design and implementation of controls in relation to journals and accounting estimates.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.
- We have reviewed accounting estimates for biases that could result in material misstatements due to fraud.
- We have not identified any material unusual transactions outside the normal course of business of the College.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias; and.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any instances of management override of controls from our testing to date.

Significant risks (continued)

Property valuations



Risk identified and key judgements

The College held £51.876m of property assets (land and buildings) at 31 July 2021 which increased to £56.971m as at 31 July 2022, due to upwards revaluations as a result of the College undertaking an interim independent valuation exercise as at 31 July 2022. In 2022/23 the College will not perform any valuation of the property assets as the last desktop valuation was conducted in prior year.

The College is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with its modern equivalent asset. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

The College's land and buildings are revalued every 5 years for the purposes of the financial statements with an interim valuation after 3 years. Land and buildings were valued as at 31 July 2022 (interim valuation) on the basis of depreciated replacement cost by the Colleges appointed external valuer.

We are also aware that the College is faced with significant backlog maintenance which is likely to have an impact on the valuation and useful economic life of the buildings. There is therefore a risk that the carrying value of assets not revalued in the year is materially misstated.



Deloitte response and challenge

We have tested the design and implementation of key controls in place around the property valuation.

We used our valuation specialists, Deloitte Real Asset Advisory, to provide insight on the movement in BCIS rates and obsolescence factors during the year which may have an impact on the overall valuation of Inverness College property assets. This includes the potential impact of backlog maintenance on the valuation and useful economic life of the buildings within the College Estate.

We have challenged management's assessment for material changes in value for those property assets not subject to a full valuation during the year.

We have reviewed and tested the valuation disclosures made in the Annual Report and Accounts.

Deloitte view

We have no matters to report to the Committee based on our work performed.

Significant risks (continued)

Operating within the funding provided



Risk identified and key judgements

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should consider the risk of fraud and error on expenditure.

We therefore considered the fraud risk to be focused on how management operate within the funding limits set by the Scottish Funding Council. There is a risk that Inverness College could materially misstate expenditure in relation to year-end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year-end and invoices processed around the year-end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year-end.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Funding Council. Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals and prepayments made at year end;
- Obtaining independent confirmation of the resource limits allocated to Inverness College by the Scottish Funding Council and UHI;
- Performing focused testing of accruals and prepayments made at the year-end; and
- Performing focused cut-off testing of invoices received and paid around the year-end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Funding Council.

Significant risks (continued)

Completeness of Income



Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

We therefore considered the income streams of Inverness College and concluded that the risk of material misstatement due to fraud is pinpointed to non-recurrent funding. Specifically, the recognition of grant income with conditions attached and the recognition of income with performance conditions attached.

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of deferred and accrued income around year-end.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the completeness of income. Our work in this area included the following:

- Evaluating the design and implementation of controls around recognition of non-recurrent income;
- Performing focused testing of grant income where there are conditions of entitlement including clawback clauses; and
- Performing focused testing of income with performance conditions attached.

Deloitte view

We have no matters to report to the Committee based on our work performed.

Significant risks (continued)

Capital Financing Arrangements



Risk identified and key judgements

Capital financing arrangements and the associated accounting is assessed as a significant risk, due to the material value of the liability and the complexity of the associated accounting.

In 2015 the College took possession of its new campus buildings, using the Scottish Futures Trust's Non-Profit Distributing (NPD) model. Under the NPD arrangement, the College makes monthly service charge "unitary charge" payments which include the capital element of the loan funding together with interest, facilities management and building lifecycle costs. As at 31 July 2022 the present value of future lease payments was reported as £34.7 million.

Given the material value of the NPD liability as well as the complexity of the associated accounting treatment we consider this as a significant risk area that should be tested.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the capital financing arrangements. Our work in this area included the following:

- Evaluating the design and implementation of controls in place around capital financing arrangements made;
- Reviewed the College's NPD accounting and disclosures against the requirements of the SORP and FRS102 and against the underlying contracts; and
- Audited the NPD agreements and accounting model to consider the reasonableness of the NPD disclosure within the financial statements.

Deloitte view

We have no matters to report to the Committee based on our work performed.

Other Areas of Audit Focus

Defined benefits pension scheme

Background

Retirement benefits to employees of the College are provided by the Highland Council Pension Fund (HCPF), which administers the Local Government Pension Scheme (LGPS) and is managed by Highland Council, and the Scottish Teachers Superannuation Scheme (STSS), which is administered by the Scottish Public Pensions Agency (SPPA).

The net pension liability decreased from £16.2m in 2020/21 to £2m in 2021/22. As at 31 July 2023, this increased to a net asset position of £4.9m. The increase is a combination of an increase in the fair value of the net assets and a slight decrease in the liabilities as a result of demographic changes and financial assumptions.

Hymans Robertson LLP are the College's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements. The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies and no significant changes in the membership of the scheme or accrued benefits have occurred during the year. As a result, we have not identified this as a significant risk.

Deloitte response

Our work on this area is ongoing.

- We have assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We have reviewed and challenged the assumptions made by Hymans Robertson LLP;
- We have obtained assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We have noted the potential impact of the Virgin Media pensions case on the accounts, and have instructed management to include disclosure within the subsequent events note;
- We have assessed the reasonableness of the College's share of the total assets of the scheme with the Pension Fund Annual Accounts;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and
- We have reviewed the disclosures within the accounts against the FE SORP.

Deloitte view

We have raised one unadjusted misstatement in relation to the Goodwin ruling assumptions adopted of £32k. Further details of this adjustment can be found on page 33.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
Historic Errors in Creditors It was noted during our substantive procedures performed on the creditors balance that there are historical errors on the ledger which have been corrected but not removed.	We recommend that management review the creditors register and remove any historical errors that have been corrected.	The creditor balances will be reviewed, and the historical errors will be removed from the ledger.
Incorrect NI rate used to calculate Holiday Pay Accrual It was noted during our substantive procedures performed on the holiday pay accrual that the incorrect NI rate was used at 15.05% instead of 13.08%.	We recommend that management review the latest NI rates in use when calculating their holiday pay accrual.	Noted that the rate used in the current year was done in error. To address going forward.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

Inverness College's Annual Report and Accounts have been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of the Charities Accounts (Scotland) Regulations 2006(as amended). Following our audit work, we are satisfied that the accounting policies are appropriate.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the College on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the Annual Report and Accounts

We have issued an unmodified audit report.



Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment of the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

We have no matters to bring to the attention of the Committee in relation to expenditure and income in the Annual Report and Account not being incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Your Annual Report and Accounts

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the College's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the College.	We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes based on review of the draft Annual Report and Accounts. We have confirmed that all necessary changes have been made.
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted. We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes based on review of the draft Annual Report and Accounts. We have confirmed that all necessary changes have been made. We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction.

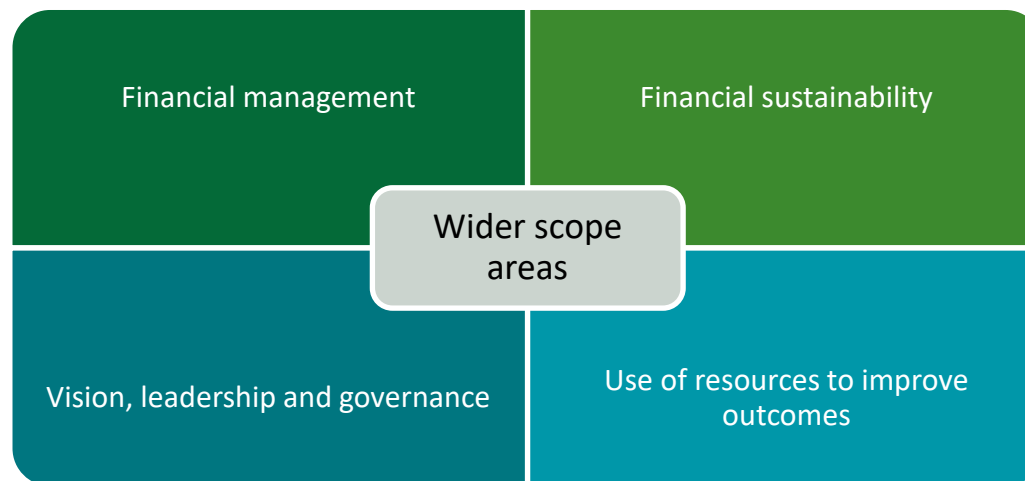
Wider scope audit



Wider scope requirements

Overview

As set out in our audit plan, reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



In its planning guidance, Audit Scotland has also highlighted climate change as a national and sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits.

Our audit work has considered how Inverness College is addressing these risks, and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

Wider scope requirements (continued)

Financial management



Significant risks identified in Audit Plan

During 2022/23, there has been turnover in key finance team staff including the Director of Finance. There is therefore a risk that financial controls are not fully implemented.

Current year financial performance

We note that Inverness College is facing significant financial challenges during 2022/23, which are projected to increase across future years. However, from a financial management perspective, we note that the final outturn position was in line with the 2022/23 budget set at the beginning of the year.

The forecast outturn position for Inverness College in 2022/23 was a deficit position of £284k. This was made up of total income of £29,431k and total expenditure of £29,715k.

The final outturn position achieved was a deficit of £1,796k. This was made up of total income of £30,829k and total expenditure of £32,625k. We note that the total expenditure recorded was significantly higher than budget. This is due to a one-off impairment in relation to the Longman site which was included as an asset held for sale as at 31 July 2023.

Finance team structure

The finance team structure has remained consistent throughout the year. The Board continues to have a sufficiently qualified and experienced finance team to support the financial management of the Board. Included within our work on leadership and governance is our assessment of changes to the leadership team at Inverness College.

Budget processes

The Inverness College budget is approved by the College Board annually. The CMT and Board members regularly review progress against budget throughout the year, with quarterly reporting to the Board and the Governance and Scrutiny Committee. From review of the reporting throughout the year, variances are clearly reported and explained. There is also a clear link between the financial information reported in the year and the Annual Accounts through a clear reconciliation within the Performance Report. From our work performed in this area, we have not noted any issues with the financial management and budgetary processes at the college. The Board has effective financial planning and management arrangements in place

Deloitte view – financial management

We have not noted any issues with the financial management and budgetary processes at the College. The Board has effective financial planning and management arrangements in place.

Wider scope requirements (continued)

Financial sustainability

Have any short-term financial challenges been identified and addressed through a financial recovery plan?



How appropriate are the arrangements put in place to address any identified funding gaps?



Are there plans in place to support how efficiency targets are to be met?



Financial Sustainability

Key risk identified

The financial environment in which Inverness College operates is challenging, with the impact of declining student numbers, inflationary pressures and national pay negotiations increasing this challenge. Financial sustainability was reported as one of the most significant risks faced by the College in its 2021/22 Annual Report and Accounts. There is therefore a significant risk that the robust medium to long term planning arrangements are not in place to ensure that the College can manage its finances sustainably and deliver services effectively.

Current year assessment

Inverness College is facing financial sustainability challenges. In 2022/23 the college recorded a deficit of £1,796k. Although this was primarily impacted by a one-off impairment posted in the year. In 2023/24 the forecast deficit is £421k, which remains at a consistent level for 2024/25 and 2025/26.

Medium to Long Term Planning

Recruitment for Higher Education (HE) saw a downward trend in the year with the college identifying that more HE part time offerings are required. The college is working with UHI partners as part of the UHI 2024 strategy to review the curriculum offered. Further Education (FE) activity over exceeded its target after failing to achieve this for three years in a row.

The key issue in the college sector is the five-year projected public sector financial outlook which sees flat funding for the college sector and reduced capital funding. One of the key concerns relating to limited funding increases is cost inflation, specifically regarding staff costs. Staff costs are projected to be £0.5m over budget in 2023/24.

Currently, there is no recovery plan in place with the focus of the college being on improving both HE and FE activity as well as continuing to receive the necessary funding.

Deloitte view – financial sustainability

We note that Inverness College is facing financial sustainability challenges, specifically in relation to flat funding and rising staff costs. We note that student recruitment levels at Inverness College have improved in recent years and the College exceeded their FE target for 2022/23. We note that the College is currently financially sustainable, with actions being taken to address financial challenges seen across the College sector.

Wider scope requirements (continued)

Vision, leadership and governance

Does the body have a clear vision and strategy?



Is there evidence that leaders are adaptable to a changing environment?



Do members and senior managers have a culture of cooperation and working constructively in partnership?



Vision, leadership and governance

Risk Identified

The previous auditor concluded in 2021/22 that the key features of good governance were in place at the College and operating effectively. However, it was noted that limited progress had been made in actioning internal audit recommendations. The latest Strategic Plan finished in 2020 meaning that currently there is no Strategic vision for staff and stakeholders to embrace. The current updated strategic plan is still in its draft stages.

Strategic Plan

We note that Inverness College has a Strategic Plan for 2022-2026 published on their website. From our review of the Strategic Plan in place at Inverness, we note that the college has a clear vision and strategy which included a clear set of priorities. In addition to this, a key focus is being placed on sustainability which is embedded within the governance arrangements at the College.

The strategic plan includes 5 key strategic pillars which are included with specific aims attached to each one. Each of these pillars includes a strategic aim, and four to six key strategic objectives. These objectives are in place to ensure the priorities are aligned with the needs of the communities and individuals. The strategic plan and policies are all published on the Inverness College website, evidencing the information is accessible to relevant communities.

Adapting to a changing environment

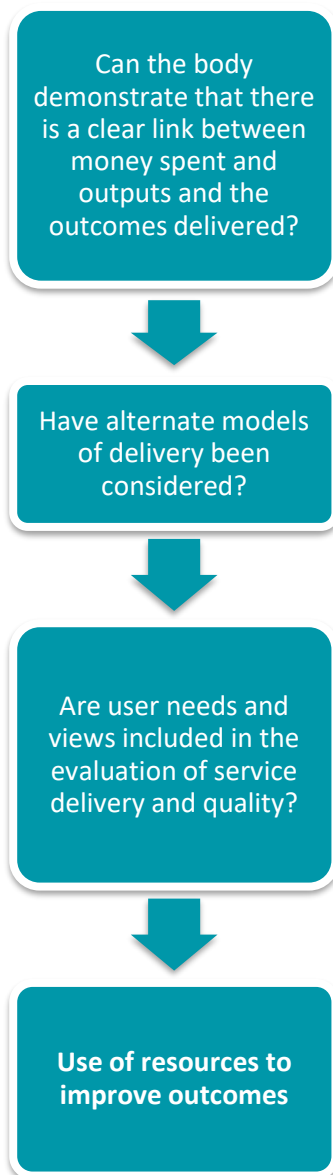
We note from our review of committee meeting minutes and our attendance at audit committee meetings that the leaders of the College are adapting to a changing environment. This includes regular reviews of financial performance, and discussions on curriculum reviews as noted on the following slide.

Deloitte view – Vision, leadership and governance

We note from our wider scope work performed that during the 2022/23 financial year there were good governance arrangement in place at the College showing a leadership team working collaboratively to adapt to a changing environment.

Wider scope requirements (continued)

Use of resources to improve outcomes



Risks identified in Audit Plan

As discussed under financial sustainability, there is a significant risk that the College does not have plans in place to manage its finances sustainably. There is also a risk that performance management systems are not sufficient to demonstrate how resources are being directed to improve outcomes.

Use of resources to improve outcomes

Inverness College has a strong focus on the quality of its students' experience and on quality enhancement across its provision and services. This was evidenced by the most recent external review of Inverness College in March 2022 and the published report by Education Scotland, which highlighted circa 42 aspects of good practice. This was further evidenced in their Annual Engagement visit by Education Scotland during February 2023, where they found major strengths in the college's work in relation to Recruitment, Retention, Attainment and Progression.

Student recruitment

One of the key KPI's in place at the College is in relation to student recruitment. This is monitored and reported on the monthly basis to the College Board. We note that the key metrics are HE and FE student recruitment. In 2022/23, the College delivered 30,500 FE credits against a target of 29,620 credits, equivalent to 103% of the target. Inverness College delivered a total full-time equivalent (FTE) HE students of 1,290 FTE against a target of 1,441 FTE, equivalent to 90% of the target.

There is an acknowledgement of the lower than budget HE activity in the year and the college have plans in place to improve upon this going forward. A curriculum review is due to take place in order to improve on these targets.

Deloitte view – Use of resources to improve outcomes

We note that the College is going through a period of financial challenge. We note from our work performed on financial sustainability that the College has governance arrangements in place to demonstrate the best use of available resources to improve outcomes.

Wider scope requirements (continued)

Climate change

Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Question	Inverness College position
1. What targets has the body set for reducing emissions in its own organisation or in its local area?	Inverness College has an Environmental Sustainability Strategy in place. This includes targets that the College has set to achieve net carbon zero emissions by 2040. However, we note that this does not include interim targets to measure progress. We recommend that these are incorporated into the Strategy and are reported to the College Board on a timely basis.
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	Inverness College has a Carbon Management Plan in place. This management plan sets out the College's strategy and how it intends to achieve its targets.
3. How does the body monitor and report progress towards meeting its emission targets internally and publicly?	We note that Inverness College have a Carbon Management Team which meets on a regular basis to monitor how the College can reduce its carbon footprint through all its operations. This includes reviewing the progress of current projects and monitoring key emissions statistics over time. We note that the College has not set interim targets to measure progress against its Sustainability Strategy. See recommendation above in relation to monitoring progress against emissions targets.

Wider scope requirements (continued)

Climate change (continued)

Question	Inverness College position
4. Has the body considered the impact of climate change on its financial statements?	No specific consideration has been given to the impact of climate change on the financial statements. Given the size of the organisation, the expected impact on the financial statements is minimal.
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	Included with the Inverness College financial statements is a section on “Sustainability Strategy”. Included within this section are details of the College’s Carbon Management Plan, Sustainability Strategy Implementation Group, and the Sustainability Strategy itself.

Deloitte view – Climate change

We note that Inverness College have a sustainability target to achieve net carbon zero emissions by 2040. This does not include interim targets to measure progress. We recommend that these are incorporated into the Sustainability Strategy and are reported to the College Board on a timely basis.

Inverness College has a Carbon Management Plan in place. This management plan sets out the College’s strategy and how it intends to achieve its targets.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the College discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the College, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the college.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

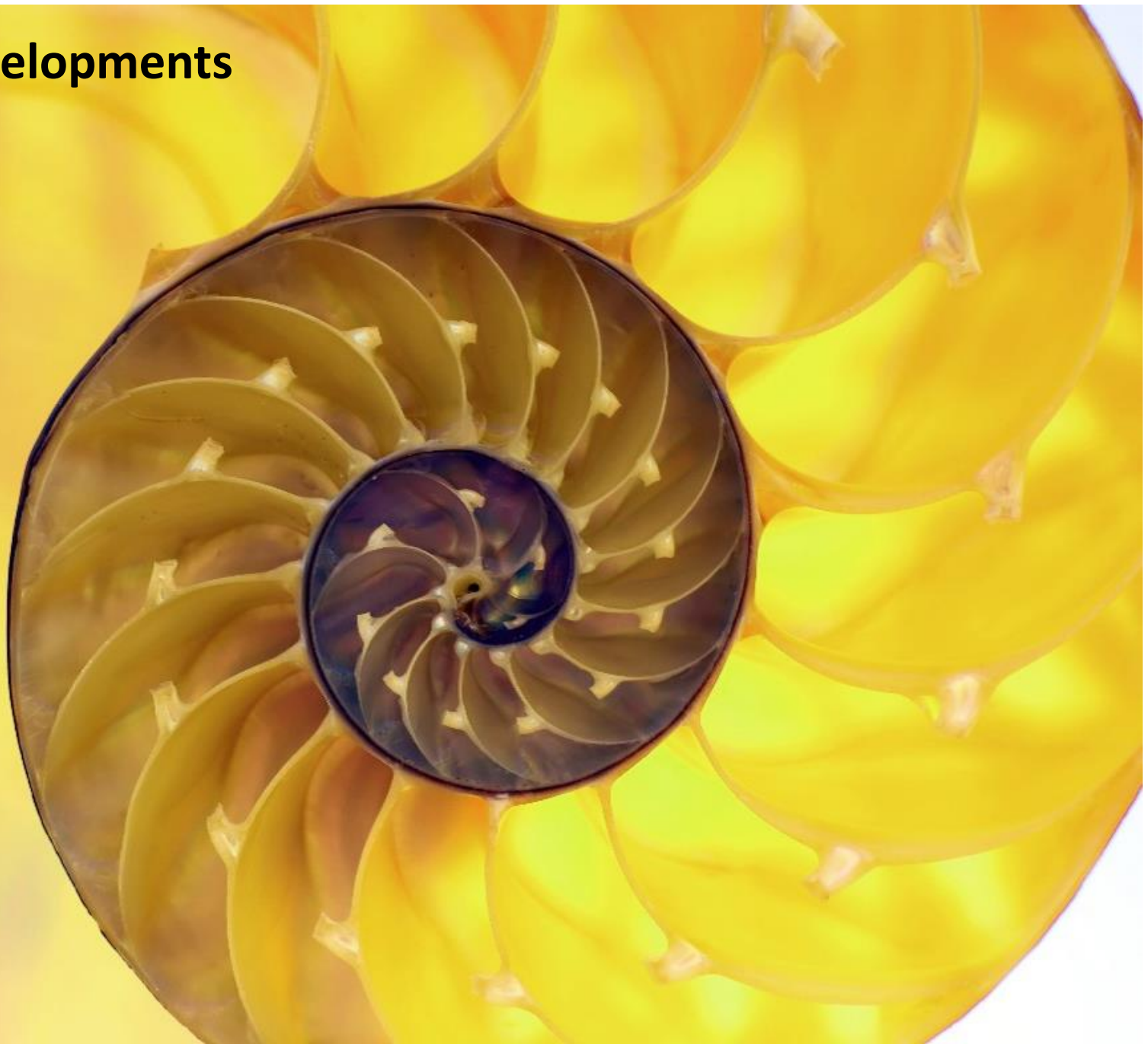
We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

Glasgow | 20 September 2024

Sector developments



Scotland's Colleges 2023

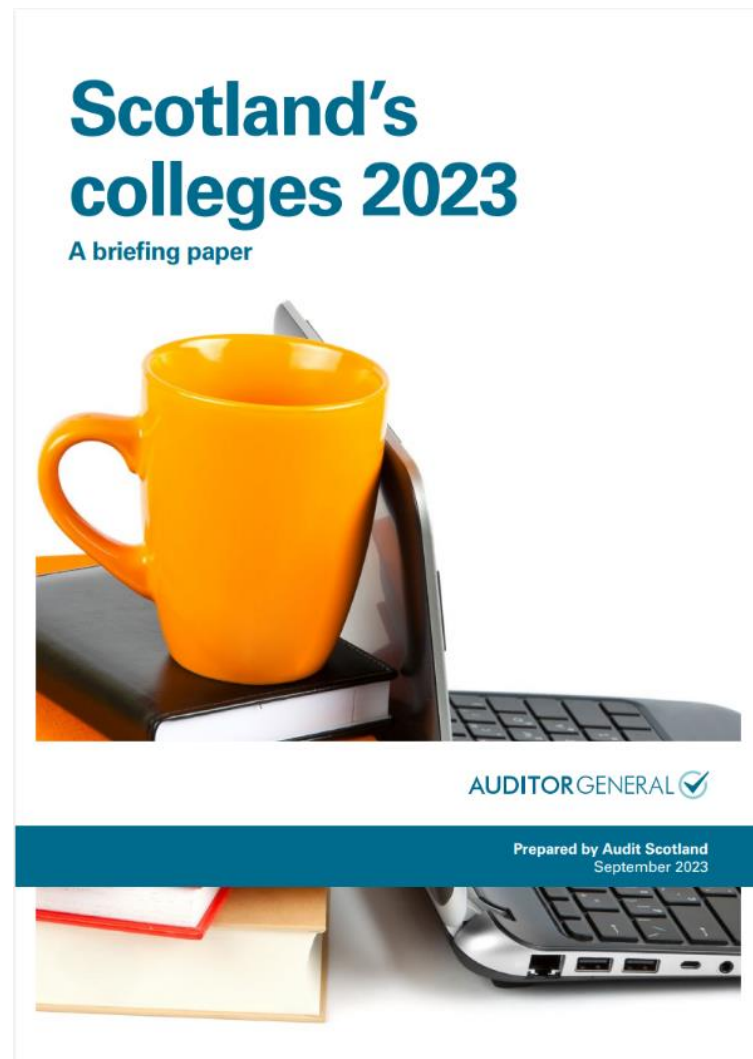
Audit Scotland Briefing Paper

Background and overview

Scotland's Colleges offer academic and vocational courses to develop people's skills and knowledge for work, continued study or general interest. The Scottish Government has a central role in setting policy and funding the college sector.

Key Findings:

1. Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.
2. The Scottish Government's funding for the sector has reduced by 8.5% in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
3. Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.



Appendices



Control findings

The following recommendations have arisen from our 2022/23 audit work performed to date:

Recommendation	Management Response	Priority	Responsible Person	Target Date
Historic Errors in Creditors It was noted during our substantive procedures performed on the creditors balance that there are historical errors on the ledger which have been corrected but not removed.	The creditor balances will be reviewed, and the historical errors will be removed from the ledger.	Low	Management	TBC
Incorrect NI rate used to calculate Holiday Pay Accrual It was noted during our substantive procedures performed on the holiday pay accrual that the incorrect NI rate was used at 15.05% instead of 13.08%.	Noted that the rate used in the current year was done in error. To address going forward.	Low	Management	FY24

Audit adjustments

Adjusted misstatements

The following corrected misstatements have been identified during the 2022/23 audit, which have been corrected by management as required by ISAs (UK).

		Debit/(credit) SOCNE £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Impairment of asset held for sale	[1]		(1,060)		1,060	
Non-current creditor	[2]		786		(786)	
Total			(274)		274	

[1] Asset held for sale in relation to the Longman site was overstated as at 31 July 2023. Asset per the draft financial statements was held on balance sheet at £2.3m. This amount was based on a valuation that had taken place in June 2022. This asset was sold post year end for £1.24m. An impairment of £1.1m was therefore required as an adjusting post balance sheet event.

[2] We note that a non-current creditor for the amount due on the Longman Road site was held at £2m at year end. Based on the impairment of the asset held for sale to £1.24m, an adjustment was required to reduce the deferred capital grant in relation to the Longman site to the same level.

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been during the 2022/23 audit, which we request that you ask management to correct as required by ISAs (UK).

		Debit/(credit) SOCNE £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
No allowance has been made in relation to the Goodwin case.	[1]		(32)		32	
Total			(32)		32	

[1] No allowance has been made in relation to the Goodwin case in the FY23 liability value. In our view an allowance should be made, as a past service cost. Based on available information, we believe the cost of this would be £32k. We note that this is a judgemental misstatement based on assumptions used by actuarial specialists.

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
None noted.		

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the College to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the College to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



Audit work performed:

In our planning we identified the risk of fraud in operating within the funding provided, completeness of income and management override of controls as key audit risks.

During course of our audit, we have had discussions with management and those charged with governance.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the College and our objectivity is not compromised.

Fees

The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

	£
Auditor remuneration	46,210
Audit of College – additional fees*	TBC
Audit Scotland fixed charges:	
• Pooled costs	(6,780)
• Audit support costs	1,190
• Sectoral cap adjustment	(10,650)
Total expected fee	29,970

There are no non-audit fees.

*During the audit in 2022/23, we have been required to perform additional procedures in relation to the material misstatements identified. These procedures resulted in additional senior time being required on the audit. Following the completion of the audit, we will commence conversations with the Finance team regarding additional fees for this work. After agreement of any additional fees with the Finance team we will report back the final position to the Audit Committee.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the College's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the College, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.



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