Ayrshire College

2023/24 Annual Audit Report to the Board and the Auditor General for Scotland

December 2024

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Key messages

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Audit opinion	Our independent auditor's report is unqualified in all regards.
Key audit findings	The College had good administrative processes in place to prepare the annual accounts and the supporting working papers. The finance team have been proactive and provided good support to the audit team. We have obtained adequate evidence in relation to the key audit risks identified in our audit plan. **PFI provision treatment (significant risk)** The College has a provision of £2.3 million included in 2023/24 accounts to purchase the Kilwinning Campus as the PFI contract is due to expire on 13 June 2025. We have assessed that the value of the provision is reasonable based on the original contract uplifted for inflation. The College is currently assessing the market value of the property as the purchase price to buy the campus is the lower of the price per the contract uplifted and the market value at the end of the contract. However, this exercise has no impact on 2023-24 financial statements. In addition to the significant risks, we identified at the planning stage, two other key issues arose as a result of changed SFC guidance during the year. **Job evaluation accounting treatment** In the first version of the accounts the College derecognised cost and income of £5.1 million relating to job evaluation and recognised it as a contingent liability only. The contingent liability is a disclosure in the accounts and does not impact financial statements. This change in accounting treatment was required by the SFC's Accounts Direction 2023/24 following transfer of the funds previously earmarked for job evaluation cost from SFC's reserves to the Scottish Government. Azets and other auditors across the sector have raised queries with the SFC on those changes made in the 2023/24 Accounts Direction which did appear contrary to the accounting standard requirements.

Key audit findings	As a result, the SFC prepared a revised guidance where the liability in relation to the job evaluation cost is to be recognised as a provision, but without matching funding being recognised. The College followed that guidance and revised its accounts accordingly. The updated SFC guidance also suggests this change requires a prior year adjustment. However, the College was not aware of the change in job evaluation funding arrangements until 2023/24 and is of a view that it does not need a prior year adjustment. We concur with this view. **Estate maintenance expenditure classification** In previous years, colleges had more flexibility on how they applied funding marked as for estates maintenance in the SFC annual allocation. The College has previously relied on this funding for estates maintenance, which is a revenue cost as it maintains rather than increases the value of property. In the 2023/24 grant letter, the SFC clarified that this funding could only be used for capital purposes (to create assets) and not for revenue purposes (as income). The SFC guidance is potentially contradictory to the accounting standard requirement where a spend on maintenance is typically classified as revenue. To avoid treatment contradictory to the accounting standard and/or breaching SFC instructions in the grant letter the College deferred 2023/24 estates maintenance spend until next year until this issue is resolved. There is however a risk that due to late resolution expected, this funding might not be spent before March 2025 and there exist a risk of clawback of the funds by the SFC. The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We have identified a material disclosure adjustment to the NPD future commitment note, which has been updated in the final set of financial statements. We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements. Details of the adjustments made to the financial statements, along with unadjusted errors are noted at Appendix 2.
Accounting systems and internal controls	We applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identify any control weaknesses, we include these in this report. We identified no significant weaknesses in accounting and internal control systems during our audit.

The wider scope of public audit

	Auditor judgement Risks exist to the achievement of operational objectives
Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	The College is generally well managed financially but faces unprecedented and continuing challenges resulting from public sector funding levels and pressures on staff pay. The College has reported an operating deficit of £7.3 million for the year ended 31 July 2024. This is a significant increase on prior year due to de-recognition of the job evaluation funding as required by the SFC Accounts Direction. The College saw an increase in the year deficit when compared to the initial budget deficit due to exceptional costs for the Kilwinning Campus end of contract payment and estates management costs. These were excluded from the budget as they were not known at the point at which it was initially prepared and approved. The delivery of the key transformation projects during 2023-24 has been delayed due to their complexity and resulted in an underspend of c.£0.786 million in this area. The College expects to deliver these projects during 2024-25. The accounts reported a cash balances of £11 million at 31 July 2024 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

	Auditor judgement Significant unmitigated risks affect achievement of corporate objectives
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	Notable risks exist relating to ongoing financial pressures and given the fragility of future income/funding position. This is a risk to optimising successful financial sustainability and to the achievement of operational objectives. The financial position of the College is challenging as it is forecasting an operating deficit over the next three-year period in the region of £6.0 million. There remain a number of forecasting uncertainties in relation to staff pay awards, estates management funding, inflation and sector-wide issues which are contributing to increased financial risk and the unpredictability of the long-term financial position of the College. The future flat cash funding settlement outcome, as notified from the SFC, will require a significant savings programme to be implemented. Additional challenge comes from the changes to the job evaluation funding which became less certain. While the Scottish Government is maintaining a commitment to fund it in the future when negotiations conclude, this does not meet accounting standard criteria to recognise as income in the accounts and SFC guidance only requires to recognise the cost, which is currently £5.1 million for the College. An approved and updated Infrastructure Strategy is required to ensure the College has sufficiently identified and prioritised the investment needed within its estate and can secure the required funding to support this. It would also enable the development of a mid to long term capital plan.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place The College has a clear vision and a Statement of Ambition 2030 in place to support it, with a number of policy documents to support its delivery. Governance arrangements at the College were found to be good. Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** Risks exist to achievement of operational objectives 2023/24 was another challenging year, however the College achieved its credit target for the first time in the last three years. The College reports on nine key measures which covers both financial and non-financial aspects. The performance indicators in relation to students show a mixed performance with good student retention rates, but a reduction in student success due to the impact of industrial action and unique student enrolments due to reduction in SFC credit target and withdrawal of Flexible Workforce Development Funding . Following our prior year recommendation the College has included KPI information in its annual report and accounts together with explanatory narrative. The Board is now receiving a focused set of indicators with accompanying explanations presented at the relevant Committees to support them in making informed decisions. The Board has appropriate performance management processes in place that support monitoring and managing the performance, however more detail could be provided at this level. We understand that

	the College is developing a Board of Management KPI dashboard and would see this as a positive step to bridging this gap.

Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.

There is a fundamental absence or failure of arrangements

There is no evidence to support necessary improvement

Substantial unmitigated risks affect achievement of corporate objectives.

Arrangements are inadequate or ineffective

Pace and depth of improvement is slow / needs to extend further

Significant unmitigated risks affect the achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to the achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to the achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in Audit Scotland's Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit.

Responsibilities

The College is responsible for preparing an annual report and accounts which show a true and fair view of the results for the year and position at the year end, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team or to Audit Scotland.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing.	The annual report and accounts was considered by the Audit and Risk Committee on 10 December 2024 and approved by the Board on 19 December 2024. Our independent auditor's report is unqualified in all regards.
Going concern basis of accounting	When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise the College's functions.	We reviewed the financial forecasts for 2024/25. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.
Regularity of income and expenditure	We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.	We did not identify any instances of irregular activity. In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and

Opinion	Basis for opinion	Conclusions
		guidance issued by the Scottish Ministers.
Opinions prescribed by the Auditor General for Scotland: • The audited part of the Remuneration and Staff Report • Performance Report • Governance Statement	We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • The audited parts of the Remuneration and Staff Report have been properly prepared. • The information given in the performance report is consistent with the financial statements and has been properly prepared. • The information given in the Governance Statement is consistent with the financial statements and our understanding of the College gained through our audit.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in June 2024. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. This includes:

- an evaluation of the College’s internal control environment; and
- substantive testing on significant transactions and material account balances, including procedures outlined in this report in relation to our key audit risks.

Quality indicators

We have applied a suite of quality indicators to assess the reliability of the College's financial reporting and response to the audit.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Quality and timeliness of draft financial statements	Mature	Draft financial statements were received on date agreed.
Quality of working papers provided and adherence to timetable	Mature	The work papers were provided before we started the audit and were easy to follow.
Timing and quality of key accounting judgements	Mature	The audit team and College's finance team liaised early on the key judgements required for the financial statements preparation.
Access to finance team and other key personnel	Mature	The finance team were available throughout audit and responded quickly to queries raised by audit team.
Quality and timeliness of the • audited part of the Remuneration and Staff Report • Performance Report • Governance Statement As well as the quality and timeliness of supporting working	Mature	The annual report and all supporting workpapers were received in a timely manner by the date agreed. Their quality was good.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
papers for those statements.		
Volume and magnitude of identified errors	Mature	Minimal errors have been identified from work performed.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures are designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we considered the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

The table below summarises each significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Yes	Assess design & implementation	Low	We have not identified any indication of management

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
				override during our testing.
Fraud in revenue recognition	Yes	Assess design & implementation	Low	We have gained reasonable assurance on the accuracy and occurrence of income and we are satisfied that it is fairly stated in the financial statements.
Fraud in non-pay expenditure recognition	Yes	Assess design & implementation	Low	We have gained reasonable assurance over completeness of expenditure.
Valuation of land and buildings	No	Assess design & implementation	High	We have gained reasonable assurance over valuation of land and buildings.
Pension asset / liability	No	Assess design & implementation	High	We have gained reasonable assurance on the treatment of pension asset and pension liability.
Provision for PFI	No	Assess design & implementation	High	We have gained reasonable assurance on

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
				the treatment of PFI provision.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
Significant risk description	Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Very High
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. **Audit procedures**

Risk area	**Management override of controls**
	• Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals. • Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the College's journals policy. • Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	We have not identified any indication of management override of controls, or of bias in key judgements made by management.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	**Fraud in revenue recognition**
Significant risk description	Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed, inherent risk on every audit unless it can be rebutted. The presumption is that the College could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. In respect of Scottish Funding Council (SFC) grant funding, however, we did not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition was however present in all other income streams. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Revenue (occurrence): High

Key risk area	Fraud in revenue recognition
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. **Audit procedures** • Documented our understanding of College's systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material income streams using analytical procedures and sample testing of transactions recognised for the year.
Key observations	We have gained reasonable assurance on the occurrence of income and we are satisfied that it is fairly stated in the financial statements.

Key risk area	Fraud in non-pay expenditure recognition
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Non-pay expenditure (completeness): High Accruals (existence and completeness): High

<table>
<tr><th>Key risk area</th><th>Fraud in non-pay expenditure recognition</th></tr>
<tr><td>How the scope of our audit responded to the significant risk</td><td>Key judgements
Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end.
Audit procedures
Documented our understanding of the College’s systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements.
Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems.
Obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
Substantively tested material expenditure streams using analytical procedures and sample testing of transactions during the year.
Reviewed accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.</td></tr>
<tr><td>Key observations</td><td>We have gained reasonable assurance over the completeness of expenditure and completeness and existence of accruals and are satisfied that expenditure is fairly stated in the financial statements.</td></tr>
</table>

Key risk area	**Valuation of land and buildings (key accounting estimate)**
Significant risk description	The College held land and buildings with a net book value of £121.3 million at 31 July 2024, with full external valuations last undertaken as at 31 July 2023 and an external desktop valuation undertaken as at 31 July 2024. There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the College's asset base represents an increased risk of misstatement in the financial statements.
How the scope of our audit responded to the significant risk	**Key judgements** Colleges are required to ensure fixed assets are held at a carrying amount that does not differ materially from the current value at 31 July, alongside appropriate additional disclosures. **Audit procedures** • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Considered the basis on which the valuation was completed and challenged the key assumptions applied. • Tested the information used by the valuer to ensure it is complete and consistent with our understanding. If there had been any specific changes to the assets in the year, we ensured these have been communicated to the valuer. • For unusual or unexpected valuation movements, tested the information used by the valuer to ensure it is complete and consistent with our understanding. • Ensured revaluations made during the year had been input correctly to the fixed asset register and the

Key risk area	**Valuation of land and buildings (key accounting estimate)**
	accounting treatment within the financial statements is correct.
Key observations	We have gained reasonable assurance over valuation of land and buildings.

Key risk area	**Pension asset / liability (key accounting estimate)**
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability. There is a risk that the assumptions used are not appropriate. **Inherent risk of material misstatement:** Pensions (valuation): High
How the scope of our audit responded to the significant risk	**Key judgements** A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability. **Audit procedures** • Reviewed the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreed the disclosures in the financial statements to information provided by the actuary. • Considered the competence, capability, and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Key risk area	Pension asset / liability (key accounting estimate)
	• Evaluated whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements.
Key observations	We have identified an immaterial adjustment to the movements in other comprehensive income in relation to unfunded liability, actuarial gains/losses and asset ceiling adjustment. These have been corrected by management. We have gained reasonable assurance over valuation of pensions.

Key risk area	Valuation of PFI provision (key accounting estimate)
Significant risk description	The Board intends to purchase the facility at the end of the PFI contract from its provider - KE Projects. The initial associated cost has been included within the College's 2022/23 financial statements as a provision of £1.4 million. However, this amount is subject to further review of the PFI contract and negotiations between the parties and is likely to increase further. A significant level of estimation is required in order to determine the valuation of provision. This is one of the first PFI assets transferring back to the public sector in Scotland and consideration of the legal and accounting requirements are likely to be complex. There is a risk that the assumptions used in valuing the provision are not appropriate. **Inherent risk of material misstatement:** Provision (valuation): High
How the scope of our audit responded to the significant risk	**Key judgements** There is a high level of estimation required in determining the value of the provision. **Audit procedures** • Reviewing the controls in place to ensure that the provision valuation is consistent with the relevant

Key risk area	**Valuation of PFI provision (key accounting estimate)**
	documentation and agreements made by the College and PFI provider. • Reviewing the reasonableness of the assumptions used in the calculation of the value of the provision. • Examining the accounting, classification and disclosure of the provision in the financial statements.
Key observations	We have gained reasonable assurance over the valuation and basis for the PFI provision of £2.3 million included in the accounts.

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the College and the needs of users. We reviewed our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality for the College's financial statements was £1,075,000. On receipt of the 2023/24 unaudited annual accounts, we reassessed materiality and updated this to £974,000. We consider that our updated assessment has remained appropriate throughout our audit.

	College **£**
Overall materiality for the financial statements	974,000
Performance materiality (75% of materiality)	730,500
Trivial threshold	48,700

Materiality	Our assessment is made with reference to the College's gross expenditure. We consider this to be the principal consideration for users of the annual accounts when assessing financial performance. Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2023/24 unaudited annual report and accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration & Staff Report and Related Parties disclosures. For the Remuneration & Staff Report we consider any errors which result in a movement between the relevant bandings on the disclosure table to be material. For Related Party transactions, in line with the standards, we consider the significance of the transaction with regard to both the College and the Counter party, the smaller of which drives materiality considerations on a transaction by transaction basis.

Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

We have not identified any significant misstatements in the financial statements from work completed so far.

We also identified disclosure and presentational adjustments during the audit, which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these at Appendix 3. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Other communications

Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	No such matters noted.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	We have identified two significant judgments made by management during the audit. We have liaised with management and Audit Scotland on those throughout the audit to discuss both issues. These are also relevant to the college sector across Scotland. **Job evaluation provision** In previous years, an estimate of the accrued cost of the job evaluation exercise was accounted for as a liability in the College's accounts. The related funding was top-sliced from the Scottish Government allocation to the sector and retained by SFC on behalf of colleges. Each college treated the funding as accrued income and the cost as accrued expenditure - effectively with nil impact on the accounts. During 2023-24, the administration of the funding was transferred from the SFC to Scottish Government and the SFC 2023-24 Accounts Direction requires colleges to treat the cost as a 'contingent liability'. Contingent liabilities are not accounted for as actual liabilities as they are considered too uncertain. This would remove both the cost and the related funding from each college's accounts, still with a nil net impact. The College prepared the accounts in line with the SFC Accounts Direction, recognising the contingent liability and

Area of focus	Audit findings and conclusion
	reversing the previous accrued cost and income of £5.1 million. We have liaised with Audit Scotland and other college auditors to assess this treatment. There is common agreement amongst the external auditors involved in the college sector that there is insufficient evidence that the accrued cost of the job evaluation exercise is insufficiently certain that it should no longer be considered a liability. The guidance and rationale included in the Accounts Direction were also contradictory and unclear. The matter has been raised by the SFC with Scottish Government to seek further clarification of the treatment and classification of the job evaluation cost and relating income. As a result of this feedback, the SFC revised its initial direction and stated that colleges should: • recognise a liability in accounts (as a provision); • not recognise relating income or funding; • include prior year adjustment in relation to these changes; and • include the reversal of income as a reconciling item in the Adjusted Operating Position table. The College has updated the accounts for the provision recognition, derecognising the income and inclusion of this item in the Adjusted Operating Position disclosure. However, a condition included in the revised SFC direction for including these changes as a prior period adjustment was that the College knew

Area of focus	Audit findings and conclusion
	about funding changes in 2022/23. Based on the College analysis, the change was not reasonably known until 2023/24 and no prior period adjustment is required as a result. Such interpretation and treatment is also permitted by Audit Scotland's guidance published recently. We concur with this view. **Estate maintenance expenditure treatment** In previous years, Colleges had more flexibility on how they applied funding marked as estates maintenance in the SFC allocation. The College has previously relied on this funding for estates maintenance, which is a revenue cost as it maintains rather than increases the value of property. In the 2024/25 grant letter, the SFC clarified that this funding could only be used for capital purposes (to create assets) and not for revenue purposes (as income). This will put significant additional pressure on the College's financial sustainability. The College is continuing to use the funding for maintenance purposes. As this is not in accordance with the SFC guidance, the expenditure is potentially 'irregular', as the funding is not being applied to the purposes for which it was provided. The funding allocation for this cost runs from April to March which is different from the College's financial year meaning that only spend between April and July 2024 has been included in the 2023/24 accounts and this was not material to these accounts. Our early conclusion is that due to the spend not being material and SFC guidance referring to budgeting rules this does not represent a material 'regularity' breach. However, if SFC

Area of focus	Audit findings and conclusion
	guidance is to be maintained in future years, the impact will likely become material and we will therefore revisit the above judgement in 2024/25. We raised this matter with Audit Scotland and SFC and they are liaising with the Scottish Government to allow a technical transfer between capital and revenue at the Spring Budget Revision, which would allow SFC to pass down this flexibility to the colleges.
Prior year adjustments identified	None identified.
Concerns identified in the following: • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target	None identified.

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.

The accounting policies, which are disclosed in the financial statements, are in line with the FE SORP and are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Key judgements and estimates

In the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, pension liability, provisions and accruals. Other than the pension liability, asset valuation and the PFI provision we have not determined the other accounting estimates to be significant. See the section above on "Significant risks at the assertion level for classes of transaction, account balances and disclosures" for detailed findings in relation to key accounting estimates.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall, we concluded that those key accounting estimates were balanced and appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Audit & Risk Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting the College. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

Written representations

We issued the final letter of representation to the Board to sign at the same time as the financial statements are approved.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

The wider scope of public audit

	Auditor judgement Risks exist to the achievement of operational objectives
Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	The College is generally well managed financially but faces unprecedented and continuing challenges resulting from public sector funding levels and pressures on staff pay. The College has reported an operating deficit of £7.3 million for the year ended 31 July 2024. This is a significant increase on prior year due to de-recognition of the job evaluation funding as required by the SFC Accounts Direction. The College saw an increase in the year deficit when compared to the initial budget deficit due to exceptional costs for the Kilwinning Campus end of contract payment and estates management costs. These were excluded from the budget as they were not known at the point at which it was initially prepared and approved. The delivery of the key transformation projects during 2023-24 has been delayed due to their complexity and resulted in an underspend of c.£0.786 million in this area. The College expects to deliver these projects during 2024-25. The accounts reported a cash balances of £11 million at 31 July 2024 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

	Auditor judgement Significant unmitigated risks affect achievement of corporate objectives
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	Notable risks exist relating to ongoing financial pressures and given the fragility of future income/funding position. This is a risk to optimising successful financial sustainability and to the achievement of operational objectives. The financial position of the College is challenging as it is forecasting an operating deficit over the next three-year period in the region of £6.0 million. There remain a number of forecasting uncertainties in relation to staff pay awards, estates management funding, inflation and sector-wide issues which are contributing to increased financial risk and the unpredictability of the long-term financial position of the College. The future flat cash funding settlement outcome, as notified from the SFC, will require a significant savings programme to be implemented. Additional challenge comes from the changes to the job evaluation funding which became less certain. While the Scottish Government is maintaining a commitment to fund it in the future when negotiations conclude, this does not meet accounting standard criteria to recognise as income in the accounts and SFC guidance only requires to recognise the cost, which is currently £5.1 million for the College. An approved and updated Infrastructure Strategy is required to ensure the College has sufficiently identified and prioritised the investment needed within its estate and can secure the required funding to support this. It would also enable the development of a mid to long term capital plan.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place The College has a clear vision and a Statement of Ambition 2030 in place to support it, with a number of policy documents to support its delivery. Governance arrangements at the College were found to be good. Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** Risks exist to the achievement of operational objectives 2023/24 was another challenging year, however the College achieved its credit target for the first time in the last three years. The College reports on nine key measures which covers both financial and non-financial aspects. The performance indicators in relation to students show a mixed performance with good student retention rates, but a reduction in student success due to the impact of industrial action and unique student enrolments due to reduction in SFC credit target and withdrawal of Flexible Workforce Development Funding . Following our prior year recommendation the College has included KPI information in its annual report and accounts together with explanatory narrative. The Board is now receiving a focused set of indicators with accompanying explanations presented at the relevant Committees to support them in making informed decisions. The Board has appropriate performance management processes in place that support monitoring and managing the performance, however more detail could be provided at this level. We understand that

	the College is developing a Board of Management KPI dashboard and would see this as a positive step to bridging this gap.

Financial management

Financial performance

The College reports an operating deficit of £7.3. million for the year ended 31 July 2024. This is almost twice the operating deficit recognised last year of £3.9 million and reflects de-recognising of £5.1 million of funding in relation to the job evaluation cost in the year. This derecognition was caused by the SFC Accounts Direction revision which required to recognise the cost as a provision, but not the relating income or funding. In previous years income was recognised on the basis that the SFC kept separate reserves specifically for that purpose. From 2024/25the administration of these reserves formally moved to the Scottish Government who does not maintain earmarked reserves for that purpose. The colleges in Scotland were informed that the Scottish Government is committed to fund these costs once the job evaluation process concludes.

After adjusting the operating position for non-cash items that are out with the control of the College, such as pensions and net depreciation, the College shows an adjusted operating deficit of £0.3 million. The College saw a decrease in year when compared to the initial budget operating deficit, however the following costs were not budgeted for:

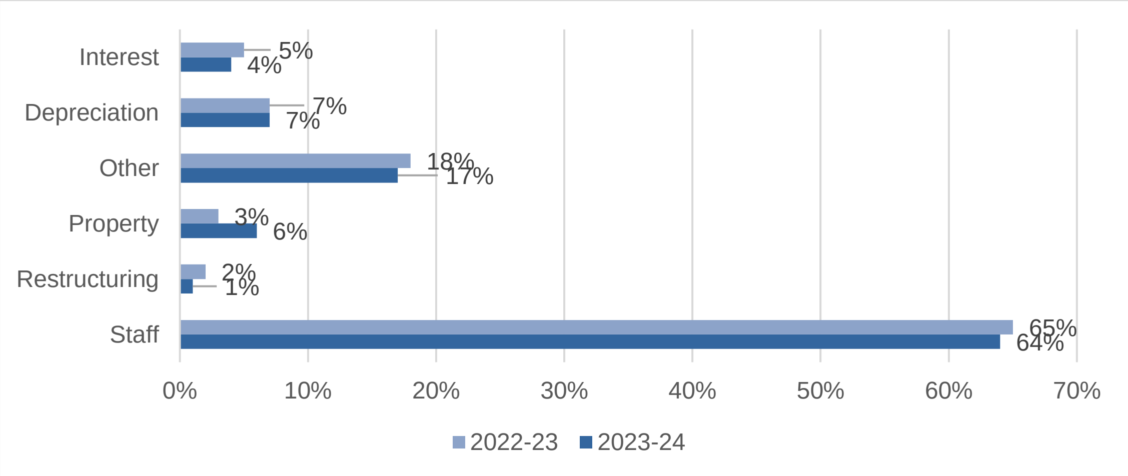
- The level of voluntary severance payments was £0.444m less than budgeted. The scheme was opened in 2023 and the demand for such schemes is always uncertain and depends on individual staff circumstances.
- Decrease in income due to not being able to use RDEL expenditure for estate management.
- The College has incurred £0.850m of additional property costs related to the termination of the Kilwinning campus PFI contract as it was determined during late 2022 that a provision should be made to reflect the decision to buy the Kilwinning Campus at the expiry of its lease and there was an increase to this provision in 2023/24 to £2.3m
- A provision related to Nethermains dilapidations costs was lower than expected resulting in savings of £0.225m and the dilapidations adjustment is difficult to budget for due to the nature of estimation.

These items were excluded from the initial 2023/24 budget as they were not known at the point at which it was initially prepared and approved by Board of Management in May 2023.

The level of transformation project spend was £0.786m less than expected with a significant element of the anticipated expenditure now expected to be incurred in the first quarter of 2024/25. Transformation projects are across three areas of aerospace, digital transformation and workforce skills. The aerospace project involved a lengthy application regards the aerospace training certification which is still ongoing and sourcing of equipment including a plane which took a lot longer than expected. The digital project involved a number of key areas e.g. moving to the cloud, a new website and replacing laptops and these are now progressing well. Workforce skills is also progressing through a new programme for Leadership Development in the College. All projects are reported through a project board and also to the main Board and the College expects full spend in the current year 2024-25.

The College's main source of income continues to be grant funding from the SFC (87% of total income in 2023/24).

Exhibit 1: Key expenditure items 2 years comparison



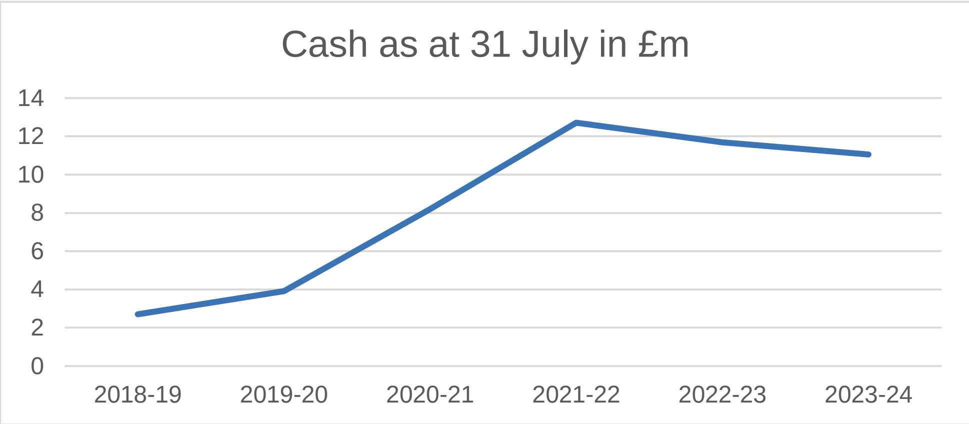
Source: 2023-24 Board of Management Report and Financial Statements

Staff costs, taken together continue to be the highest area of spend for the College accounting for 64% (65% in 2022/23) of total expenditure. When compared to the previous year these costs decreased mainly reflecting savings achieved from the severance scheme ongoing over the current year and in year staff turnover efficiencies..

The cost of voluntary severance in the year was £0.9 million and 19 members of staff took advantage of the scheme in 2023/24 (20 staff left the College in 2023/24 with 1 staff member being approved in 2022/23). This represented around 3% of total headcount. The College's voluntary severance program closed in May 2024. Our review of the scheme shows it was compliant with SFC authorisation.

Cash position

Exhibit 2: Cash position over 5-year period



Source: Board of Management Report and Financial Statements

Operating cash held by the College was £11.0 million at year end. The cash balance remains high due to several payments not made during 2023/24 such as:

- £2.5 million accrual for the 2022/23 and 2023/24 pay award;
- £0.5 million in respect to severances agreed in 2023/24;
- £2.7 million of payments in relation to the aerospace, digital transformation and staffing skills transformation; and
- £2.25m million of cash held to pay the Kilwinning Campus balloon payment.

The College is required to have a cash position in line with requirement of maintaining a break-even position and having cash for working capital purposes.

Budget Setting

The Financial Memorandum between the Scottish Funding Council and the College sets out the formal relationship between both bodies and the requirements with which the College must comply in return for payment of grant by the SFC. The College's objectives in relation to the public funding it receives are set out annually in a Regional Outcome Agreement with the SFC.

The College's Vice-Principal – Finance and Infrastructure is responsible for preparing an annual budget for approval by the Board of Management on the recommendation of the Business, Resources and Infrastructure Committee. The budget is informed by and aligned with the College's wider strategy documents.

The budget preparation process is built upon contributions from budget holders to ensure meaningful and achievable estimates are agreed.

We have reviewed the Management Accounts as at 31 July 2024, which compares the budget set at the start of the year versus the actual outcome, including detailed explanation for any variances which have occurred. As outlined above, the significant variances resulted from unknown costs at the time the budget was prepared.

Capital Expenditure

There has been no significant capital expenditure undertaken during the financial year.

Systems of internal control

We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended. The College has progressed on the action points we identified last year in relation to the general IT controls. These were of low to medium importance, with no high importance points identified.

Prevention and detection of fraud and irregularity

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

Internal Audit undertook a review programme in 2023/24 with a strong level of assurance provided relating to the arrangements in place to prevent and react to instances of fraud with the exception of estates management and only one recommendation being raised around maintaining an Infrastructure Strategy.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

The most recent NFI exercise commenced in 2022. The College uploaded the data in line with the requirements of the NFI in October 2022 ahead of the new data sets being released in January 2023. The College staff assessed the matches and investigated as appropriate. The findings were presented to the Audit and Risk Committee in March 2024.

Overall, the College's arrangements with respect to NFI are satisfactory.

The next NFI exercise starts soon and submission of the data is due by the College by the end of November 2024 to enable the release of match reports before Christmas.

Financial sustainability

Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability
The College continues to face significant financial challenges, operating within tight financial parameters, and activity continues to plan the measures required to ensure the College is in a long-term sustainable position. Ayrshire College presented a budget and financial strategy to the Board of Management in June 2024. The College estimates adjusted operating deficit totalling £6.0 million for the period between 2024-27. The greatest risks to the College's sustainability are those around levels of funding from SFC, particularly with the removal of the one-off elements funded and the projected "flat cash" position for 2024/25 and beyond. The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2024/25 and in every subsequent year thereafter. Staff costs continues to be a significant pressure area for the College and a key aspect of the College's ambitious transition plan. With the uncertainty around the public sector pay settlements, any increase in staff costs will have a material impact on the finances of the College. While the College will also have savings from the reduced pension contributions over the next financial year, after that period these are going to increase to 17.5%, so the nature of these savings will be short term. The continuing and uncertain impact on the College's finances and, ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk.
Our detailed findings on College's financial framework for achieving long term financial sustainability are set out below.

Short Term Financial Planning

The further education sector has received a ‘flat cash’ settlement from the Scottish Government for 2024/25 which equates to a reduction in real terms. The Scottish Government’s 2024/25 Budget set a college revenue budget of £643 million. Excluding the £26 million of transition funding that was initially part of the 2023-24 budget, this represents a decrease of £32.7m (-4.8%) from 2023/24.

As a result, Scotland’s further education sector faces an extremely challenging financial future given (i) general and wage inflation costs are unfunded, (ii) making changes and refining delivery models brings resource implications related to planning and managing the change and may have consequences in how the College is positioned for future success and able to meet the needs of the stakeholders it serves.

The College is heavily reliant on SFC funding which currently represents c.87% of total income. As such, any movement in grant funding impacts directly on the College’s financial position.

The SFC published final colleges funding allocations in May 2024. The 2024/25 SFC main grant allocation for the College is £37.6 million and this supports delivery of 111,480 of student credits, which is the same as the prior year.

The College prepared its 2023/24 budget, prior to the final SFC allocation being announced, based on the indicative allocations and detailed forecasts available at the time. The key assumptions include:

- That the College will deliver the level of credit activity as per the 2024/25 funding allocation.
- No job evaluation funding or expenditure has been included beyond 2023/24.
- There will be teaching staff employers’ pension contribution increases expected to be covered by the SFC via Scottish Government Barnett consequentials; some short term savings on the staff costs of the Strathclyde Pension Fund are expected over the next two years;
- That the College will be allowed to continue to split estate maintenance funding and treat up to £0.93 million as revenue.
- The College has accounted for £2.1m of PFI related costs in the period up to 2023/24 and is not anticipating any further costs.

The College plans the delivery of in-year savings of £1.042m including:

- staff turnover efficiencies (£0.5m).
- organisational structural changes (£0.5m).
- non-staff costs efficiencies (£0.1m).

The budget for the year 2024/25 was presented to the Business, Resources & Infrastructure Committee in May 2024 before being taken to the Board of Management in June 2024. The College is projecting an operating deficit of £0.7 million before net depreciation. This includes £1.0m of costs relating to strategic projects.

Medium Term Financial Planning

The Financial Forecast Return presented to the Board of Management in June 2024, covers the period 2023-2027. The College's overall strategy was taken into consideration when preparing this document.

Exhibit 3: Adjusted operating position over next three years

	2024/25 **£m**	**2025/26** **£m**	**2026/27** **£m**
Adjusted Operating Deficit	2.5	1.8	1.7

Source: June 2024 Financial Forecast

Based on the most updated position in 2023/24 the College estimates adjusted operating deficit totalling £6.0 million for the period between 2024-27. This position is based on pay uplifts in line with the College Employers Scotland full and final offer and the Scottish Government's 2024-25 Public Sector Pay Policy. It also includes an expectation of no other sources of income and no change to the Scottish Government or SFC funding model.

The above position was produced prior to the changes in relation to job evaluation funding arrangements. The exact cost and funding will be not known until the process has concluded. Until then the College will accrue cost in their accounts annually. At the end of 2023/24 the cumulative position was of £5.1 million.

The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2024/25 and in every subsequent year thereafter.

The adjusted operating result is the key financial measure used by the College. It takes the operating position per the accounting standards and adjusts it to exclude non-cash items.

The current and next two years expected cash position of the College is favourable, therefore not raising any concerns in relation to a going concern assumption.

The College also faces the following uncertainties when budgeting for the coming year:

- Clarity over whether the capital SFC funding can be used for revenue purposes in 2024/25, which is expected to be announced early 2025. This means that if this is not allowed to be used for revenue estate management, the College will have a limited time to spend the capital funding.

- Confirmation of funding for salary increases of 4.14% for teaching staff, 3% for support staff and pension increases announced by the Scottish Government for teachers.

  The recently announced national insurance increase which the College is estimating will translate into an additional £0.3 million cost for the four months to 31 July 2025.

Impact on education provision

Due to the above financial constraints, the College must identify savings, with staff costs accounting for the majority of College spend. It is the main cost driver as a 1% change equates to c.£0.3 million increase/decrease in cost.

In the current year, the College generated savings through the voluntary severance scheme and decreased its workforce by 20 staff members.

Ongoing/potential future reduction in staffing levels may impact the ability of the College to achieve its annual credit target and other national objectives, therefore having a knock-on effect on future financial and non-financial performance. This is likely to impact volume and range of course, qualifications and related learning journeys.

We do understand that these external factors (e.g. funding decisions, inflation, pay awards) are not entirely within the College's control and the College is considering all options to maintain appropriate levels of teaching delivery. At the same time, this challenge will be partly managed by an effective and continuously changing, scenario-based workforce plan.

The College has in place a People Strategy 2022-25. We note this document analyses the key issues and how the College intends to achieve its aims.

Capital plans - estates

The College had a high-level Infrastructure Strategy 2018-20 to address emerging and future needs. Two out of three of the College's Campus are operated under PFI/NPD contract and thus the maintenance of the infrastructure lies with the operators. However, the College had identified further investment for the improvement of the Dam Park building at the Ayr campus and general maintenance needs, including ensuring the IT infrastructure remains fit for purpose.

The delivery of the Infrastructure Strategy is overseen by the Vice Principal Finance and Infrastructure and supported by the estates and ICT team with the Business, Resource and Infrastructure Committee oversight and reporting to the Board. This allows appropriate governance arrangements.

In the prior year we noted that an updated Infrastructure Strategy is required to ensure the College has sufficiently identified and prioritized the investment needed within its physical and digital estate and can secure the required funding to support this. It would also enable the development of a mid to long term capital plan.

The College has utilised part of the August 2024 staff conference to obtain feedback on how the College can implement its strategic objectives and the underlying strategies. Several strands were identified from staff sessions and these will be used in compiling the final Infrastructure Strategy.

The Board Development session in September 2024 was used to lay out the intended direction of travel, building upon the National Digital Strategy and SFC Infrastructure Strategy. Further discussion will be undertaken with Business, Resource and Infrastructure Committee along with wider stakeholder engagement. The College intends that the December 2024 Board meeting will approve the Infrastructure Strategy as planned.

Kilwinning Campus PFI Contract

The College's PFI contract for the Kilwinning Campus is due to expire on 13 June 2025. During 2019/20 the College obtained legal advice to understand any obligations and actions that should be taken in relation to the expiry, this advice identified three options:

1. Purchase the facility from KE Projects
2. Extend the terms of the agreement of the contract
3. Walk away from the Kilwinning campus facility

A paper was taken to the Business, Resources and Infrastructure Committee on 16 November 2021 outlining the options available, other contract provisions to consider and the proposed preferred option. The BRI Committee agreed in principle to recommend that the Board of Management pursues the option to purchase, subject to a future business case being presented at the appropriate time, within the timeline set out in the contract.

The intention to purchase the facility from KE Projects has been included within the College's FFR with a provision of £2.3 million being included in 2023/24 accounts.

Trading Subsidiary

The College also plans to establish a trading subsidiary, which it plans to have operational by the end of 2024 or the start of 2025. This is expected to become operational in August 2025 and is for the provision of courses for aircraft maintenance training. As the trading subsidiary is not yet operational, we cannot assess whether the planned establishment of a trading subsidiary is supported by appropriate governance, scrutiny and risk management frameworks.

Vision, leadership and governance

Our detailed findings on the College's arrangements are set out below.

Vision and leadership

The College's Strategic Ambition was launched in August 2024 and covers the period 2024-27. It builds on the College's collective achievements over recent years, as the organisation strives for even greater success in pursuit of its three key strategic themes to:

- Deliver outstanding experiences.
- Be a partner of choice.
- Have a key role in enabling the future.

These new priorities are an evolution from the main strategic priorities of the previous Statement of Ambition 2030. The Strategic Ambition sets out three core objectives for the coming period.

- To provide Outstanding Experiences;
- To be a Partner of Choice; and
- Enabling the Future.

The new Statement of Ambition covers 4 key strategic areas: Infrastructure, People, Learning and Teaching and Business. The College is in the process of updating the relevant strategic documents and these will be presented to the December 2024 Board of Management for approval.

There is a financial memorandum in place between the SFC and the College which ensures that the terms and conditions of grant funding are clear and understood.

Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between the SFC and the College. From review of available committee and board minutes and papers, we are satisfied that the College routinely considers reports on the development and implementation of the ROA.

Governance arrangements

The Board of Management is responsible for ensuring the overall governance of the College. In driving forward the strategic direction of the College and ensuring the governance framework is operating as intended, the Board continues to be supported by five committees:

- Audit and Risk Committee;
- Business, Resources and Infrastructure Committee;

- Learning, Teaching and Quality Committee;
- Performance Review and Remuneration Committee; and
- Search and Nominations Committee.

The Board undertook an effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review was performed by a self-assessment survey and reported to the Board at the October 2024 meeting. Overall, the additional feedback received from Board members was considered as positive. Several areas were identified for improvement, and these will be incorporated into the Board Development Plan.

Our review of the College's Governance Statement confirms that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the SFC Accounts Direction.

Internal Audit

An effective internal audit service is an important element of a College's overall governance arrangements. The College's internal audit service is provided by WBG (formerly known as Wylie & Bisset). During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the College's total audit resource.

Internal Audit annual assurance opinion was provided to the College in October 2024. In their opinion the Internal Audit concluded that the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of audit work. This opinion also stated that proper arrangements are in place to promote and secure Value for Money.

Standards of conduct

In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.

Use of resources to improve outcomes

Our detailed findings on the Colleges arrangements are set out below.

Performance management arrangements

The Financial Memorandum between the SFC and fundable bodies in the College sector requires the Board to:

- have a strategy for reviewing systematically management's arrangements for securing value for money (VfM); and
- as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. The College is committed to ensuring value for money is achieved through good procurement practice and optimal use of procurement collaboration opportunities.

Performance framework

The College has a detailed College Operating and Enhancement Plan. This is overseen by members of the Executive Leadership Team who ensure individual targets and actions are being delivered by the lead member of senior staff. Regular performance monitoring papers are also presented to the Board.

Performance is monitored routinely throughout the year by the Board and progress against performance measures is presented to the Board annually for challenge and scrutiny.

Overall activity is managed by the Senior Leadership Team at monthly meetings where student activity targets are monitored along with performance against budget and achievement of planned activities for the year. Financial performance is also monitored regularly at the Business, Resources and Infrastructure Committee. The Board of Management are informed of the progress made towards key targets and performance through regular reporting.

Performance results

The College reports on nine key measures which covers both financial and non-financial aspects. The College's performance against key performance indicators for academic year 2023/24 shows that for the student credits target of 114,480 was achieved.

Exhibit 1: Ayrshire College Performance against SFC Core Performance Indicators

KPI	Purpose	2023-24	2022-23	2021-22
Performance against credit activity target	Measures student activity	111,600	122,552	127,676
	performance against target	100.1%	101.1%	101.8%
Unique student enrolments	Measures number of student enrolments	14,787	20,571	19,743
Full-time applications	Measures student demand	4,905	5,361	6,524
Student Retention Rate	FE Full Time	74.4%	74.9%	65.9%
	HE Full Time	74.7%	75.9%	73.1%
Student Success	FE Full Time	64.9%	68.5%	58.7%
	HE Full Time	61.6%	65.8%	62.5%
Adjusted operating position as % of total income	Measures AOP as % of total income	(0.7)%	(2.2)%	6.2%
Non SFC income as a % of income	Measures non SFC income as a % of total income	13.0%	12.7%	11.6%
Staff costs (excluding exceptional staff costs) as a % of total income	Measures staff costs excluding exceptional staff cost as a % of total income	64.9%	65.8%	63.8%

Source: 2023-24 Board of Management Report and Financial Statements

The number of enrolments decreased significantly since last year due to a planned reduction in SFC credits and the removal of Flexible Workforce Development Funding. The full-time applications are driven by the job market and specific requirements of the local areas, although their decline has been a continuing trend in the last three years. From other students relating indicators the retention rates remained at similar level to the prior years, while the success rates dropped by 4 percentage points and the College allocates that to reduction in full time students and the impact of strike action.

Following our prior year recommendation the College has included KPI information in its annual report and accounts together with explanatory narrative. The Board is now receiving links to the KPI Dashboard, and explanations for movements on the performance indicators are reported to individual Colleges' Committees. to support them in making informed decisions.

The Board has appropriate performance management processes in place that support monitoring and managing the performance, however more detail could be provided at this level. We understand that the College is developing a Board of Management KPI dashboard and would see this as a positive step to bridging this gap.

Appendices

Appendix 1: Responsibilities of the College and Auditors

Responsibilities of the College

The Code of Audit Practice (2021) sets out the following responsibilities:

Area	The College's responsibilities
Corporate governance	The Board of Management is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Board has responsibility for: • preparing financial statements which give a true and fair view of the financial position of the College and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the College and its financial performance, including providing adequate disclosures in accordance with the applicable financial

Area	The College's responsibilities
	reporting framework. The relevant information should be communicated clearly and concisely. The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. It is also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.
Financial position	The College is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
Best value	The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code outlines the responsibilities of external auditors and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the College and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

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 broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223

Independence

The Ethical Standards and ISA (UK) 260 require us to give the College full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements. In particular:

Non-audit services:

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets provided advisory services to the College on VAT matters. We obtained clearance from our Ethics Partner and Audit Scotland prior to commencing the engagement. The work has been undertaken by a separate team from the audit, and the audit team has had no involvement in this VAT work.

Contingent fees: No contingent fee arrangements are in place for any services provided.

Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the Board, senior management or staff.

Relationships: We have no relationships with the Board, its directors, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control related areas.

Our period of total uninterrupted appointment as at the end of 31 July 2024 was two years.

Audit and non-audit services

The total fees charged to the College for the provision of services in 2023/24 were as follows:

		2023/24	2022/23
Auditor remuneration		54,130	51,070
Pooled costs		(5,700)	(7,490)
Audit support costs		0	1,320
Sectoral cap adjustment		5,670	6,070
Total audit fee		**54,030**	**50,970**
Non-audit services		6,300	4,920
Total fees		**60,330**	**55,890**

Appendix 2: Audit differences identified during the audit

We are required to inform the College of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. Material misstatements which have been adjusted for are summarised in the table below.

Adjusted misstatements

Details of items corrected following discussions with management are as below.

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SoCNE Dr / (Cr) £'000
1.	Recognition of job evaluation cost:	-		-	
	Staff cost				5.077
	Other provisions		(5.077)		
	Net impact on (income)/expenditure				5.077
	Net impact on net assets				(5.077)

This adjustment has arisen as a result of changes in the guidance issued by the SFC to its Accounts Direction 2023/24. The updated guidance was released after the accounts were provided to auditors.

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the College.

We identified a number of reclassification adjustments and some minor presentational issues in the accounts, and these have all been amended by management. Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	Related parties – we identified a previously undisclosed related party through review of Board Members' other directorships on Companies House. We raised this with the College who identified there had been transactions with this related party in the year and updated the accounts and register of interest to reflect this.
2.	The presentation of actuarial gain/loss in the other comprehensive income has been corrected to remove unfunded liability.
3.	£5.08m increase to NPD future payment for services disclosure.

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our 2023/24 audit.

The recommendations are categorised into three risk ratings:

Key:

1. Significant deficiency

2. Other deficiency

3. Other observation

1. Starters and Leavers (other deficiency)	
Observation	During our audit work we identified that employment contracts were not able to be provided for some new staff members who had joined in the year. Other supporting documentation was able to be provided to confirm the existence of the employee.
Implication	This could indicate correct processes are not being followed and potential control weaknesses.
Recommendation	We recommend that for all starters a signed contract or joining form is retained.
Management response	**Response:** The HR team send contracts to every new member of staff. In one instance from the sample a staff member did not return the signed contract. Despite repeated reminders the signed contract was not returned however, all other paperwork including ID and PVG checks were in place. All efforts will continue be made to ensure contracts are signed and returned. **Responsible officer:** Strategic People Partner **Implementation date:** Immediate

Appendix 4: Follow up of prior year recommendations

We have followed up on the progress the College has made in implementing the recommendations raised in previous years.

1. IT general controls	
Recommendation	The College will work with the auditors to more fully understand the nature of the identified weaknesses and implement an action plan to address the noted weaknesses.
Implementation date	31 March 2024
Complete	The College implemented recommendations identified in this area.

2. Performance indicators	
Recommendation	While the College has a set of reports to consider the performance against all KPIs, its reporting in the annual report and accounts is largely limited to student credit targets and financial measures, and it does not provide additional commentary measures that are key to students, for example on student satisfaction levels or students progression. Providing more information on the above to the Board has also been limited in that it doesn't expand on areas where targets are not being met and might not allow informed decision making.
Implementation date	31 July 2024
Complete	The College has included KPI information in its annual report and accounts together with explanatory narrative. The Board is now receiving a focused set of indicators with accompanying narrative presented to individual Committees to support them in making informed decisions.

3. Infrastructure Strategy	
Recommendation	The College has a high-level Infrastructure Strategy 2018-20 to address emerging and future needs. Two out of three of the College's Campus are held by PFI/NPD contract and thus the maintenance of the infrastructure lies with the operators. However, the contract for the Kilwinning campus is due to expire in June 2025, at which point the College take over the asset and become responsible for the ongoing maintenance and development.
Implementation date	31 December 2024
Complete	The College has utilised part of the August 2024 staff conference to obtain feedback on how the College can implement its strategic objectives and the underlying strategies. Several strands were identified from staff sessions and these will be used in compiling the final strategy. The Board Development session in September was used to lay out the intended direction of travel, building upon the National Digital Strategy and SFC Infrastructure Strategy. Further discussion will be undertaken with BRI Committee along with wider stakeholder engagement. It is intended that the December Board meeting will approve the updated 2024-27 Infrastructure Strategy as planned.