New College Lanarkshire

2023/24 Annual Audit Report

Prepared for New College Lanarkshire and the Auditor General for Scotland

December 2024

Contents

Key messages

2023/24 annual report and financial statements

1 Our audit opinions on the Annual Report and Financial Statements are unmodified.

2 Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

3 The audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

Financial management

4 The college's underlying operating position has significantly improved from the prior year. The underlying operating position of the college shows a deficit of £0.243 million for the year to 31 July 2024 (deficit of £3.627 million in 2022/23). Including Amcol, the college reported an underlying operating surplus of £0.284 million in 2023/24.

5 The college have operated a voluntary severance scheme for the last four financial years which has reduced its spend on staff costs.

6 The college has a well-established budget monitoring and reporting process in place.

7 Some employees in the Scottish Teachers Pension Scheme have overpaid employee pension contributions due to earnings thresholds outlined in the SPPA circular not being accurately applied in the payroll system.

8 A JISC infrastructure review raised concerns over the capacity of the college's IT function. The college are considering ways in which it can increase the capacity of its IT function without an overall increase to the college's costs.

Financial sustainability

9 The college required a £4.5 million cash advance from the SFC in 2023/24 to meet its ongoing costs. Without the cash advance, the college did not have sufficient funds to meet the costs of nationally agreed pay awards. An agreement is still to be reached between the college and SFC on the repayment of these funds.

10 The college is projecting a significant improvement in the college's underlying operating position in 2024/25 with the budget showing an underlying operating position surplus of £0.650 million.

11 The college's Financial Forecast Return shows an adjusted operating surplus in 2024/25 and 2025/26 before forecasting a deficit in 2026/27.

12 The college's financial outlook has improved due to the introduction of new income streams such as the undergraduate school, but there remain concerns over the financial sustainability of the college.

Vision, leadership and governance

13 The college have established a Forward Plan which sets out its plans for the future including new income generating initiatives.

14 Appropriate governance arrangements are in place however, the Regional Strategic Board should continue to review information published on its website to promote openness and transparency and that processes are established to ensure policies are reviewed and updated regularly.

15 The college reviewed and restructured its management team during the year.

16 The college undertook a self-assessment against the Code of Good Governance for Scotland's Colleges. A board development plan was developed to take forward actions identified.

17 A consultation has taken place on proposals to reform the Regional Strategic Board arrangements in the Lanarkshire region, but the outcome has still to be announced.

Use of resources to improve outcomes

18 The college has arrangements in place to promote and secure Best Value.

19 The college have invested time and resource into developing mechanisms to student retention and reduce withdrawals. Key performance indicators continue to show that withdrawal rates remain above the national average.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of New College Lanarkshire ('the college'). The scope of the audit was set out in an Annual Audit Plan presented to the 13 May 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the college's Annual Report and Financial Statements.
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

2. This report is addressed to the college Board of Management and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. The college is responsible for preparing its Annual Report and Financial Statements in accordance with the accounts direction issued by the Scottish Funding Council (SFC) and for establishing effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

4. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2021 and supplementary guidance and International Standards on Auditing in the UK. We undertake our audit in accordance with International Standards on Auditing, and the auditing profession's ethical guidance.

5. At the conclusion of our audit, we provide an independent auditor's report for inclusion in the Annual Report and Financial Statements. We also review and provide conclusions on the effectiveness of the college's performance management arrangements, suitability and effectiveness of corporate governance arrangements, financial position, and arrangements for securing financial sustainability and value for money.

6. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

7. Our Annual Audit Report contains an agreed action plan at appendix 1 setting out specific recommendations, responsible officers, and dates for implementation. Members of the Audit and Risk Committee should ensure that they are satisfied with the proposed actions and have a mechanism in place to assess progress and monitor outcomes.

Communication of fraud or suspected fraud

8. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this report to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members have any such knowledge or concerns relating to the risk of fraud within the college, we invite them to communicate this to the appointed auditor for consideration prior to the Annual Report and Financial Statements being certified.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £75,470 (2022/23 £71,190) as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to the college by:

- identifying and providing insight on significant risks and making clear and relevant recommendations.
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2023/24 Annual Report and Financial Statements

The principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the Annual Report and Financial Statements are unmodified.

Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

The audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

Our audit opinions on the Annual Report and Financial Statements are unmodified

11. The Annual Report and Financial Statements for the year ended 31 July 2024 were approved by the Board of Management on 10 December 2024. As reported in our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework,
- expenditure and income were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers, and
- the audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by the Scottish Funding Council.

12. We are satisfied that there are no matters upon which we are required by the Auditor General to report by exception.

The audited Annual Report and Financial Statements were signed off by the 31 December 2024 deadline

13. As part of our audit planning in 2023/24, we engaged with officers in finance and across the college to agree an audit timetable for the financial statements and associated narrative reports. We shared technical guidance and discussed the requirements for the performance report, accountability report, including the annual governance statement and the remuneration and staff report and outlined the audit checks that we would perform on these.

14. We continued engaging with officers at the college to discuss the technical accounting requirements around some of the prior year recommendations including the removal of finance costs that were included within the prior year asset valuation and the calculation of the untaken leave accrual.

15. In line with the audit timetable, we received a working draft of the performance report, accountability report including the annual governance statement, and the remuneration and staff cost report on 14 October 2024. The performance report was substantially complete, and we note that the information not included at this time was unavailable. The other reports were not as far progressed and were still a work in progress at this time. However, having the opportunity to review these reports at an early stage in the audit enabled the audit team to provide feedback to officers on omissions or changes required to comply with technical guidance.

16. We received an excel spreadsheet version of the single entity New College Lanarkshire financial statements and financial notes to the accounts on 21 October 2024. Alongside this version of the accounts, we received a package of working papers that supported the disclosures in the accounts. The consolidated regional board accounts including the performance report, accountability report sections of the annual report and accounts and remuneration report were provided to audit on 4 November 2024.

17. During the financial statements audit we had ongoing discussions with the Chief Resources Officer and Financial Controller. We shared some examples of good practice and following these discussions, the college's Executive Board agreed to introduce a process whereby each member of the executive team signed an assurance statement. This provides assurance of controls and processes within each part of the college and also provides a mechanism for any significant issues to be documented and considered for inclusion within the annual governance statement.

18. The working papers provided were of a good standard and finance staff and other key contacts across the college provided good support to the audit team which helped ensure the final accounts audit process ran smoothly. This has allowed us to sign off the Annual Report and Financial Statements by the 31 December 2024 deadline.

Our audit testing reflected the calculated materiality levels

19. Materiality can be defined as the maximum amount by which auditors believe the Annual Report and Financial Statements could be misstated and still not be expected to affect the perceptions and decisions of users of these. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

20. Our initial assessment of materiality for the Annual Report and Financial Statements is undertaken during the planning phase of the audit. On receipt of the unaudited Annual Report and Financial Statements, and following completion of audit testing, we reviewed our original materiality levels and concluded that they remained appropriate. Our materiality levels are set out at exhibit 1.

Exhibit 1
Materiality values for the college and its group

Materiality	College	Group
Overall materiality: This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 July 2024.	£1.061 million	£1.513 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the Financial Statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement reflecting on the number of significant findings identified in the prior year, we calculated performance materiality at 65% of planning materiality.	£0.690 million	£0.983 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold' amount. This has been set at 5% of planning materiality.	£0.055 million	£0.075 million

Source: Audit Scotland

Our audit identified and addressed the significant risks of material misstatement together with the other areas of audit focus reported in our 2023/24 Annual Audit Plan

21. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit, we identified two significant risks of material misstatement which could impact on the Annual Report and Financial Statements. Exhibit 2 sets out the significant risks identified and the further audit procedures performed to obtain assurances over these risks and the conclusions from the work completed.

22. After our 2023/24 Annual Audit Plan was issued, it was confirmed that HM Treasury guidance applies to the college sector. This guidance prescribes that finance costs should not be included in the instant build approach prescribed for public sector valuations where the depreciated replacement cost (DRC) method is used. The value of finance costs included in the college's 31 July 2023 valuation was £24.491 million. As the value was material, a prior year restatement was required which reduced the value of the college's assets on the Statement of Financial Position at 31 July 2023 to £135.095 million.

23. We performed further audit procedures to assess whether the prior year restatement to remove finance costs has been accurately accounted for and disclosed in accordance with the accounting requirements of FRS 102 and Further Education Statement of Recommended Practice (SoRP). This was an additional procedure in response to the significant risk of material misstatement in the valuation of land and buildings. We have reported in exhibit 3 (point 1) that the restatement was not fully adjusted for in the Unaudited Annual Report and Financial Statements.

Exhibit 2

Significant risks of material misstatement reported in the 2023/24 Annual Audit Plan

Description of risk	Audit response to risk	Results and conclusion
1. Management override of controls As stated in ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.	Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions at the year-end to confirm they are accounted for in the correct financial year.	We assessed the design and implementation of controls over journal entry processing. No significant issues were noted. Management did not identify any inappropriate or unusual activity with journals or other adjustments. Journal adjustments were tested, and no indications of management override of controls were found. We reviewed transactions during the year - no issues were highlighted of transactions outside the normal course of business. Judgements and estimations applied were tested to confirm they were appropriate and reasonable. Testing of accruals and prepayments did not identify any issues. **Conclusion:** There was no evidence of management

	Focussed testing of accounting accruals and prepayments.	override of controls from the work performed.
2. Estimation in the valuation of land and buildings There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations. All land and buildings are valued every five years with a desktop valuation carried out during the five year period. The last full revaluation was carried out on 31 August 2020 with a desktop valuation carried out on 31 July 2023. Values can change materially year on year, and it is important that the college, in line with accounting standards ensures the financial statements accurately reflect the value of the land and buildings. There is a risk, in years where a valuation is not carried out, that there is a material difference between the carrying value and fair value of the college's land and buildings.	Critically assess the approach the college has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. Challenge management's assessment of why it considers that the land and buildings not revalued in 2023/24 are not materially misstated. We will critically assess the appropriateness of any assumptions. Test any revaluation adjustments made and ensure any adjustments have been accounted for accurately. Test the reconciliation between the financial ledger and asset register. Evaluate the college's impairment assessment. Critically assess the adequacy of the college's disclosure regarding the assumptions, and estimation uncertainty, in relation to the valuation of land and buildings. Assess whether the prior year restatement to remove finance costs has been accurately accounted for and disclosed in accordance with the accounting requirements of FRS 102 and Further Education Statement of Recommended Practice (SoRP).	**Results:** The college through discussion with its valuer, Ryden LLP, identified there was likely to be a material difference in the value of its assets since the last revaluation at 31 July 2023. A full desktop revaluation of the college's land and buildings was carried out at 31 July 2024. We did not identify any errors with the revaluation adjustments made. We identified no issues with the reconciliation between the college's financial ledger and asset register. We confirmed that the college had considered whether any assets had been impaired. We confirmed that the estimation uncertainty, and assumptions, relating to the valuation of the college's land and buildings was appropriately disclosed. We have reported in exhibit 3 (point 1) that the prior year restatement was not fully adjusted for in the Unaudited Annual Report and Financial Statements. The restatement was also not disclosed in line with the requirements of the accounting framework. **Conclusion:** No issues were identified with the assumptions applied to the revaluation. The prior year restatement however was not fully accounted for or appropriately disclosed.

Source: Audit Scotland

24. Our 2023/24 Annual Audit Plan also noted one other risk of material misstatement to the Annual Report and Financial Statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider that this represented a significant risk. The other area of audit focus was:

- **Pension balance:** There are significant actuarial assumptions used with a high degree of complexity in calculating this balance. We identified this as an area of risk due to the level of complexity, estimation uncertainty and extent of assumptions used in this area.

25. We kept this area under review throughout our audit. Based on the findings of the audit procedures performed, we have commented within exhibit 3 (point 6) on findings we would like to bring to your attention regarding the pension balance.

There were accounting adjustments identified from our audit of the Annual Report and Financial Statements

26. Adjustments with a gross total of £39.455 million were identified from the audit of the Annual Report and Financial Statements. The most significant adjustments are detailed in exhibit 3. The adjustment to remove finance costs from the college's fixed asset valuation, and the job evaluation adjustment which resulted from a late change in guidance, represents £29.221 million of the adjustments processed. As total adjustments were above our performance materiality, we reviewed our audit approach.

27. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior management and materiality. Management have adjusted for the issues identified. The correction of these adjustments contributed to the unaudited surplus for the year of £0.844 million in the Statement of Comprehensive Income (SoCI) reducing to a £4.843 million deficit.

We have significant findings to report on the Annual Report and Financial Statements

28. Under ISA (UK) 260 *(Communication with Those Charged with Governance)*, we communicate significant findings from the audit to members, including our view about the qualitative aspects of the college's accounting practices.

29. The Code of Audit Practice also requires all auditors to communicate key audit matters within the Annual Audit Report under ISA (UK) 701 *(Communicating key audit matters in the Independent Auditor's Report).* These are matters that we judged to be of most significance in our audit of the Financial Statements.

30. Our significant findings are detailed in exhibit 3.

31. Several presentational and disclosure amendments were discussed and agreed with management. As a result, the qualitative aspects of the college's accounting practices, accounting policies, accounting estimates and disclosures within the audited Annual Report and Financial Statements are satisfactory and appropriate.

Exhibit 3
Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
1. Prior Year Restatement to Remove Finance Costs from the College's Fixed Asset Valuation Value of Fixed Assets As set out in paragraph 22-23, finance costs had incorrectly been included as part of the college's valuation of land and buildings. Finance costs of £24.491 million were included in 31 July 2023 fixed asset valuation. In the unaudited Annual Report and Financial Statements, the fixed asset note had been accurately adjusted to remove the effect of finance costs. The Financial Controller had completed significant work on the adjustments required, but the changes had not been reflected in all areas of the unaudited financial statements. The Statement of Comprehensive Income (SoCI), Statement of Financial Position (SoFP) and Statement of Changes in Reserves (SoCiE) were not properly adjusted. In addition, the prior year restatement had not been disclosed in accordance with the requirements of FRS 102. Depreciation Charge for the Year Depreciation is calculated using the value of the college's assets and an estimate of their useful life. The depreciation charge for the year was overstated, as it had been based on the value of the college's assets including finance costs.	The college agreed to adjust their audited Annual Report and Financial Statements. Fixed assets at 31 July 2023 have reduced by £24.491 million. The 2022/23 unrealised surplus on the revaluation of land and buildings recognised through the SoCI has also reduced by £24.491 million. The college have added a disclosure note, at Note 29, to disclose the prior period adjustment. The depreciation charge for the year has reduced by £0.270 million to £4.973m.
2. Land at Motherwell and Kirkintilloch Campuses The college lease the land on which the college's Motherwell and Kirkintilloch campuses are situated. The buildings are not part of the two separate leases.	The college agreed to adjust their audited Annual Report and Financial Statements. As the adjustment was material, a prior period restatement was required. Fixed assets have reduced by £1.726 million.

Issue	Resolution
The land lease at Motherwell is for a 125-year period and was initiated in June 2007. The college paid an up-front lease premium of £6.628 million for the land lease, The land at Kirkintilloch is also for a 125 period and was initiated in September 2000. In our opinion, the land at Motherwell and Kirkintilloch, which were valued at £1.726 million are operating leases, primarily because title does not pass to the college at the end of the lease term. The land valuation should therefore not be reflected in the Statement of Financial Position. This is the accounting treatment that had been adopted since 2007.	Other operating expenses have increased by £0.054 million in 2022/23 and 2023/24, representing the annual release of the initial £6.628 million prepayment. The college's underlying operating deficit has therefore also increased by £0.054 million. At 31 July 2024, trade and other receivables have increased by £5.725 million which represents the prepayment amount still to be released over the remainder of the 125-year lease.
3. Job Evaluation The 2023/24 Accounts Direction was late in being issued by the Scottish Funding Council (SFC). When issued it contained new guidance on accounting for the Job Evaluation exercise which has been ongoing since 2018 as part of national bargaining discussions. In previous years, the SFC has instructed colleges to accrue both income and expenditure based on estimated future costs arising from this exercise. This was communicated via the annual accounts directions and the estimated costs were based on an exercise completed by Colleges Scotland in 2018. For the college, these annual estimated costs were £0.754 million. The 2023/24 Accounts Direction confirmed that grant funding, held by the SFC in reserve to meet the future costs, had been returned to the Scottish Government (SG). It also confirmed that the SG now considers that no valid expectation has been determined regarding whether a liability exists at the reporting date. Consequently, it advised colleges to disclose a contingent liability for the exercise. The college recognised the Job Evaluation as a contingent liability in the unaudited 2023/24 Annual Report and Financial Statements and removed the prior-year accrual. Following discussions at a national level, the SFC subsequently issued an amendment to the Accounts Direction in November 2024 advising that	The college have adjusted the audited Annual Report and Financial Statements. A prior year restatement has not been made. The revised treatment is considered compliant with the Further Education Statement of Recommended Practice (SoRP) and the relevant underlying accounting standards. The impact of this adjustment was to increase staff costs by £4.460 million (increase to the region costs of £5.504 million) within the SoCI. Provisions have also increased by the same amount to recognise the potential future costs of the job evaluation exercise to the college. The revised guidance by the SFC states that *"The Scottish Government remains clear that the responsibility for job evaluation funding commitments rests with it until the process is complete"*.

<table>
<tr><th>Issue</th><th>Resolution</th></tr>
<tr><td>the costs of the Job Evaluation exercise should continue to be recognised. Given the timing of the outflow of benefits remains uncertain, a provision was deemed the most appropriate accounting treatment.

The revised guidance issued by the SFC suggested a prior year restatement would be required. In our view however, the college were not aware of the change in funding arrangements between the SFC and SG until 2023/24, and we therefore concluded only a current year change was appropriate.</td><td></td></tr>
<tr><td>4. Accounting for fixed assets

Our review of the accounting treatment for fixed assets identified the following issues:
Disposal of assets: The college had included the purchase of 1,100 laptops for its laptop library for use by students as one asset on its asset register. These laptops were fully depreciated. Only 262 of these laptops were still in use, and those not in use had not been de-recognised from the asset register or accounts.
Assets de-recognised: The college had de-recognised assets in previous years with a value of £1.173 million. Finance confirmed these fully depreciated assets were still in use, and a prior year restatement was processed in the Unaudited Annual Report and Financial Statements to ensure these assets were properly accounted for.
Intangible Assets: The college had capitalised improvements to its server, storage and back-up arrangements as plant and equipment. We identified however that £0.246 million of this purchase related to software which should have instead been capitalised as an intangible asset.</td><td>Adjustments for all issues listed were made to the audited Annual Report and Financial Statements.

Our audit work in this area identified weaknesses in the college’s fixed asset record keeping. Particularly where a group of assets are capitalised as a single entry in the asset register, it is important underlying records of individual assets are actively maintained so that disposals are accurately processed.

Recommendation 1</td></tr>
<tr><td>5. Pension Provision

The college have a provision in respect of future pension liabilities arising from early retirals in prior years.

To calculate the expected future costs, the college used actuarial factors provided by the SFC in 2015. The data used contained outdated life expectancy estimates. In addition, the actuarial</td><td>The pension provision was re-calculated to accurately reflect the retirals’ current age and use updated life expectancy data.

The college agreed to adjust their audited Annual Report and Financial Statements. The pension provision at 31 July 2024 has reduced by £0.534</td></tr>
</table>

Issue	Resolution
factors applied had not been updated for several years so did not accurately reflect the retirals' current age.	million. There was a corresponding decrease to staff costs.
6. Pension Balance The college's pension balance at the year-end, and pension disclosures, are informed by a report received by an actuary, Hymans Robertson. The initial Hymans Robertson report received by the college did not fully take account of adjustments required due to the recognition of a pension asset ceiling in the prior year. The pension balance and pension adjustments were therefore misstated.	A revised report was received by Hymans Robertson, and the college have made the appropriate adjustments to their audited Annual Report and Financial Statements. A pension liability has been recognised at 31 July 2024 of £0.302 million. Pension income has reduced by £1.469 million and a net interest charge on the pension scheme of £0.002 million has been recognised in the SoCI.

Source: Audit Scotland

The Remuneration and Staff Cost Report is consistent with the Financial Statements and has been prepared in accordance with applicable guidance

32. The FReM requires the college to include a Remuneration and Staff Report within its Annual Report and Financial Statements that includes details of:

- the remuneration of senior officers, including pension entitlements for the financial year (and prior year comparator) and accrued pension benefits figures as at 31 July of that year,
- the number and cost of exit packages approved during the financial year, and
- a fair pay disclosure and a range of other information on staff costs, numbers and related activity.

33. During 2023/24, 53 individuals agreed to leave the college under voluntary severance agreements at a total cost of £1.171 million. These departures were disclosed in the remuneration and staff report. We confirmed that the college had followed the procedures outlined within SFC's guidance for seeking approval for voluntary severance schemes.

2. Financial management

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

Main judgements

The college's underlying operating position has significantly improved from the prior year. The adjusted operating position of the college shows a deficit of £0.243 million for the year to 31 July 2024 (deficit of £3.627 million in 2022/23). Including Amcol, the college reported an underlying operating surplus of £0.284 million in 2023/24.

The college have operated a voluntary severance scheme for the last four financial years which has reduced its spend on staff costs.

The college has a well-established budget monitoring and reporting process in place.

Some employees in the Scottish Teachers Pension Scheme have overpaid employee pension contributions due to earnings thresholds outlined in the SPPA circular not being accurately applied in the payroll system.

A JISC infrastructure review raised concerns over the capacity of the college's IT function. The college are considering ways in which it can increase the capacity of its IT function without an overall increase to the college's costs.

The college's underlying operating position has significantly improved from the prior year. The underlying operating position of the college shows a deficit of £0.243 million for the year to 31 July 2024 (deficit of £3.627 million in 2022/23). Including Amcol, the college reported an underlying operating surplus of £0.284 million in 2023/24

34. The college reports its financial performance over the academic year to 31 July. The college reported an operating deficit for the year to 31 July 2024 of £4.843 million (£5.079 million deficit in 2022/23) in its Statement of Comprehensive Income (SoCI). The region, which includes both Amcol and South Lanarkshire College (SLC), reported a deficit of £6.022 million in 2023/24 (£5.699 million deficit in 2022/23).

35. The position reported in the SoCI includes the impact of non-cash charges such as depreciation and pension adjustments, and capital grants recognised as income. To enable an assessment of the underlying financial strength of an institution, and allow comparison across colleges, the Scottish Funding Council requires colleges to also report the underlying operating position for the year by adjusting for these items and any one-off exceptional items impacting on the annual position reported in the SoCI.

36. The adjusted operating position of the college, reported within the Performance Report, shows a deficit of £0.243 million for the year to 31 July 2024 (deficit of £3.627 million in 2022/23). The regional position, incorporating the results of South Lanarkshire College and the college's subsidiary Amcol, was a surplus of £0.662 million (deficit of £3.450 million in 2022/23). In accordance with the 13 November 2024 addendum to the 2023/24 SFC Accounts Direction, the £4.459 million provision relating to job evaluation costs has also been adjusted for in the underlying operating position.

37. The college reports on its financial position internally including Amcol, recognising the close interaction between the college and its fully owned subsidiary. Including Amcol, the college reported an underlying operating surplus of £0.284 million in 2023/24 (2022/23 £3.142 million deficit).

38. The college continues to operate in a challenging financial environment however, the adjusted operating position has significantly improved from the prior year. The following improved the college's financial position in 2023/24:

- The college delivered its core credit target of 117,290 credits, and therefore was not required to return any core funding to the SFC. This target was significantly reduced from the core credit target of 131,305 in 2022/23.
- The SFC agreed that the college did not have to return the £1.012 million of core funding due to the SFC which had resulted from the failure to meet the 2022/23 credit target.
- Staff costs have reduced due to £1.7 million of savings resulting from the 2022/23 voluntary savings scheme. In addition, employer pension contributions to the Strathclyde Pension Fund decreased from a rate of 19.3% to 6.5% which was effective from the 1 April 2024.
- Close monitoring of budgets reduced other operating expenditure from £12.513 million in 2022/23 to £11.875 million in 2023/24, a £0.638 million (5%) reduction.

The college, and the sector, remain increasingly reliant on SFC funding

39. The SFC, using Scottish Government funding, provides grants to colleges. SFC grant funding accounted for 82% of the college's income in 2023/24 (82% in 2022/23), exhibit 4. The national average, based on the SFC's financial sustainability review of colleges, was 78%.

40. Resource funding for the college sector for the sector has been static for the last three years from 2021/22 to 2023/24. Given the high levels of inflation over the last few years, this represents a significant real terms reduction. The college's significant reliance on this income stream continues to pose significant risks to the college's financial sustainability as further detailed in section 3 of this report.

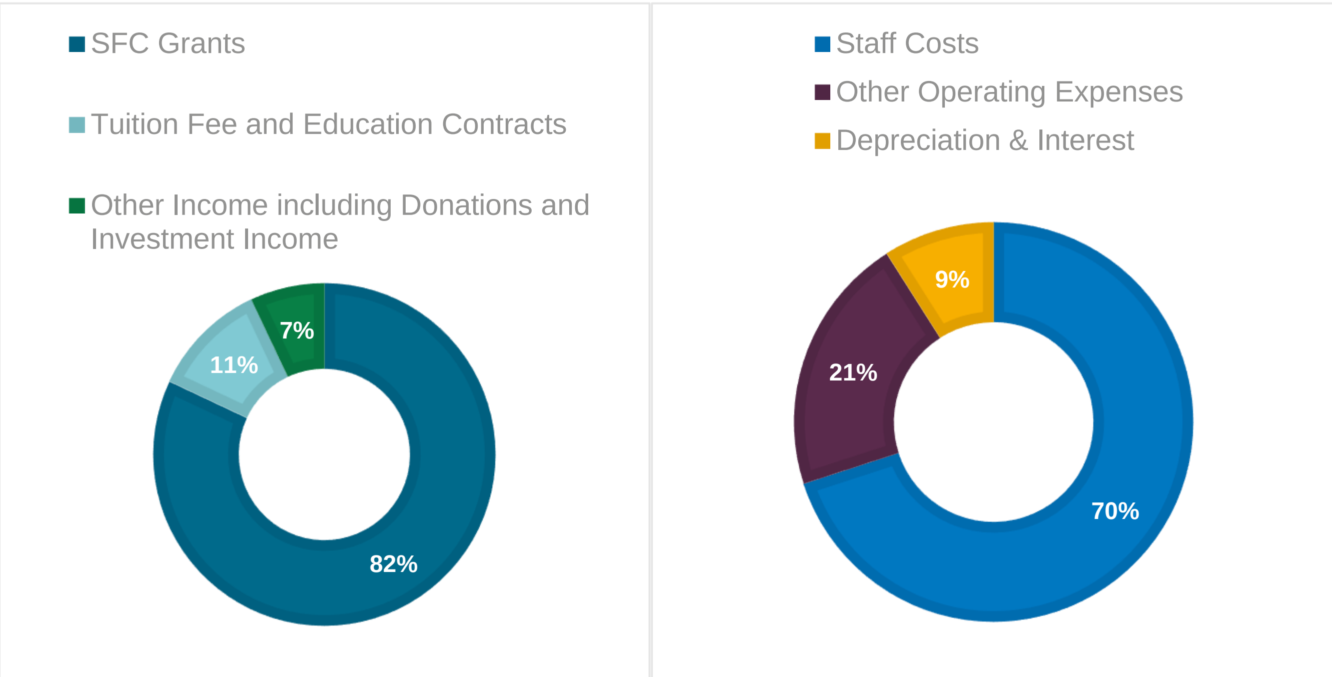
The college have operated a voluntary severance scheme for the last four financial years to reduce its spend on staff costs

41. The college took the decision to extend its 2022/23 voluntary severance scheme into 2023/24. The college have therefore operated a voluntary severance scheme in each of the last four financial years. A total of 53 staff left the college through the voluntary severance scheme in 2023/24 at a cost of £1.171 million. A total of 171 staff have left the college through voluntary severance in the last four years.

42. The Audit Scotland Scotland's colleges 2024 briefing reported that in 2022/23 nearly all colleges operated a voluntary severance scheme. With real terms decreases in funding across the sector, reducing staff numbers through voluntary severance has been a common approach for individual colleges to reduce costs. The Scottish Government and SFC have not provided specific funds for staff severance costs, so the funding of these costs in 2023/24 has been met directly by the college.

43. Staff costs accounted for 70% of the college's total expenditure in 2023/24 (71% in 2022/23), exhibit 4. The national average, based on the SFC's financial sustainability review of colleges, was 69%. The college has used voluntary severance, to reduce its spend on staff costs.

Exhibit 4
Analysis of 2023/24 income and expenditure



Source: New College Lanarkshire 2023/24 Annual Report and Financial Statements

The college has a well-established budget monitoring and reporting process in place

44. The college monitors its budget position through the preparation of monthly management accounts which are presented to each meeting of the Finance Committee. The management accounts provide detailed information on spend against budget, disclose the forecast outturn and cash position, and include a good level of detail in the narrative to explain the main budget variances.

45. The college do not produce regional financial information during the year. At each meeting, the Finance Committee receive summarised financial information for South Lanarkshire College (SLC) presented by the SLC Vice Principal Finance, Resources & Sustainability.

46. From our review of the management accounts, and review of committee papers, we confirmed that members and senior management receive regular, timely and up-to-date information on the college's financial position. This allows both members and senior management to carry out effective scrutiny of the college's finances.

47. The college has a well-established budget monitoring and reporting process in place.

A small number of control improvements were notified to management

48. As part of our 2023/24 interim audit work, we evaluated the design and implementation of the key controls operating over the main accounting systems, including those relating to IT. Our objective was to gain assurance that systems for processing and recording transactions provide a sound basis for the preparation of the financial statements.

49. We did not identify any significant control weaknesses from the financial controls reviewed. We did however identify a small number of control improvements during our review of the college's controls:

- The college received £3.626 million in income from tuition fees in 2023/24. The majority of this income is received through SAAS income, and for SAAS income reconciliation controls exist to ensure the college is paid accurately for all SAAS funded students studying at the college. Introducing a more robust and complete reconciliation between the college's tuition fees system and financial ledger would improve the college's control environment.

- Payroll controls could be enhanced. The college does not have a payroll validation control which verifies periodically whether employees remain in employment with the college and that contractual hours are accurate. In addition, payroll reconciliations are not reviewed by a second member of staff and in our experience variance thresholds applied to investigate differences in pay between month are unusually high.

- Fraud arising from fraudulent claims of supplier bank account changes are common in the public sector. The college has a robust control in place and on notification of a change in bank details, accounts payable staff contact the supplier via email and phone using details held on file. We could not however identify any documentation of the phone call to the supplier held on file.

50. The suggested improvements have been communicated to management who have agreed to implement control improvements in these areas in 2024/25.

Some employees in the Scottish Teachers Pension Scheme have overpaid employee pension contributions due to earnings threshold outlined in the SPPA circular not being accurately applied in the payroll system

51. As part of our financial statements audit procedures, we identified that due to changes in earnings thresholds not being accurately applied in the payroll system, some employees have overpaid employee pension contributions. This only affects staff that are part of the Scottish Teachers Pension Scheme. The college have advised initial indications are that the overpayment amounts to around £0.039 million, and overpayments by employees have been made from 1 April 2023 to 31 March 2024. This is not material for our audit, and no changes have been made to the Annual Report and Financial Statements.

52. We recommend all staff impacted are notified, and steps are taken to reimburse all overpayments. The college should also review its payroll controls to identify why this has occurred and mitigate any similar issues re-occurring when future contribution rates and earnings thresholds are updated. We confirmed the earnings thresholds and contribution rates were applied accurately from the 1 April 2024.

Recommendation 2

All staff that have overpaid employee pension contributions should be notified, and steps taken to reimburse all overpayments. The college should also review its payroll controls to identify why this has occurred and mitigate any similar issues re-occurring.

A JISC Infrastructure Review raised concerns over the capacity of the college’s IT function. The college are considering ways in which it can increase the capacity of its IT function without an overall increase to the college’s costs.

53. As part of our 2023/24 audit, we reviewed the college’s IT strategies, arrangements for cyber security, network security, file back-up arrangements and IT service delivery and continuation plans.

54. JISC is a not-for-profit organisation which provides network and IT services and digital resources in support of further and higher education and research, as well as in the public sector. JISC completed an IT infrastructure review of the college in December 2023.

55. The JISC review raised concerns over the capacity of the college's IT function. Based on data from infrastructure reviews carried out at over 150 other colleges in the UK, JISC has observed that to effectively carry out day to day services effectively and have the capacity to focus on future service improvement projects, teams require a ratio of IT support staff to supported users of around 1:450-500. The college's ratio of 1:1,748 was one of the highest rates seen by JISC. Despite resourcing pressures, the JISC review did comment that the team is doing a good job of delivering day to day services.

56. JISC included an action plan as part of their report with recommendations for improvement. Due to resource pressures, the college have noted that they lack the necessary capacity to progress all of the recommended actions. Particularly given the significant risk of cyber-attacks in the public sector, it is important that the college's IT arrangements are fit for purpose.

57. Cyber essentials accreditation is one way in which the college can assure itself that it has appropriate cyber security arrangements in place. Cyber essentials is a government-backed, industry-supported scheme that helps organisations protect themselves against common online threats. The college's cyber essentials and essentials plus accreditation lapsed in March 2024. There are however plans in place to re-certify this accreditation by the end of the year.

58. The college are considering ways in which it can increase the capacity of its IT function without an overall increase to the college's costs. As part of the college's review of staffing in professional services, a new Cyber Security Officer role has been proposed.

Internal audit reported that the college had adequate and effective risk management, control, and governance processes in place during 2023/24

59. The internal audit service, in any organisation, is an important element of internal control. It provides members and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud. The college's internal audit function is carried out by Wbg.

60. We considered internal audit's annual report as part of our review of the Governance Statement included in the 2023/24 Annual Report and Financial Statements. This provided internal audit's opinion that the college had adequate and effective arrangements for risk management, control, and governance processes in place during 2023/24.

There are adequate arrangements in place for the prevention and detection of fraud and other irregularities

61. The college has established procedures for preventing and detecting fraud and irregularity including a fraud and corruption policy, whistleblowing policy, and a code of conduct for members of the Board of Management.

62. Overall, we have concluded that adequate arrangements are in place for the prevention and detection of fraud and other irregularities. This is not a judgement on whether any fraudulent activity actually occurred. In addition, our review of expenditure and income during the audit did not highlight any issues with the regularity of the college’s transactions.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long-term to consider whether the college is planning effectively to continue to deliver its services.

Main judgements

The college required a £4.5 million cash advance from the SFC in 2023/24. Without this cash advance, the college did not have sufficient funds to meet the costs of nationally agreed pay awards. An agreement is still to be reached between the college and SFC on the repayment of these funds.

The college is projecting a significant improvement in the college’s underlying operating position in 2024/25 with the budget showing an underlying operating position surplus of £0.650 million.

The college’s Financial Forecast Return shows an adjusted operating surplus in 2024/25 and 2025/26 before forecasting a deficit in 2026/27.

The college’s financial outlook has improved due to the introduction of new income streams such as the undergraduate school, but there remain concerns over the financial sustainability of the college.

The financial challenges experienced by the college sector continue to increase

63. In the Scotland’s colleges 2024 briefing, Audit Scotland reported that the financial challenges experienced by the college sector have increased. Cash resource funding for the college sector has reduced by £32.7 million in 2024/25, and in real-terms funding for the sector has reduced by 17% since 2021/22.

64. Overall, the financial health of the sector has deteriorated, and the SFC has expressed concerns about low cash balances held by colleges. Colleges need to make difficult savings decisions to manage their financial positions, and these decisions will inevitably impact students, staff and local communities.

The college required a £4.5 million cash advance from the SFC in 2023/24. Without this cash advance, the college did not have sufficient funds to meet the costs of nationally agreed pay awards. An agreement is still to be reached between the college and SFC on the repayment of these funds.

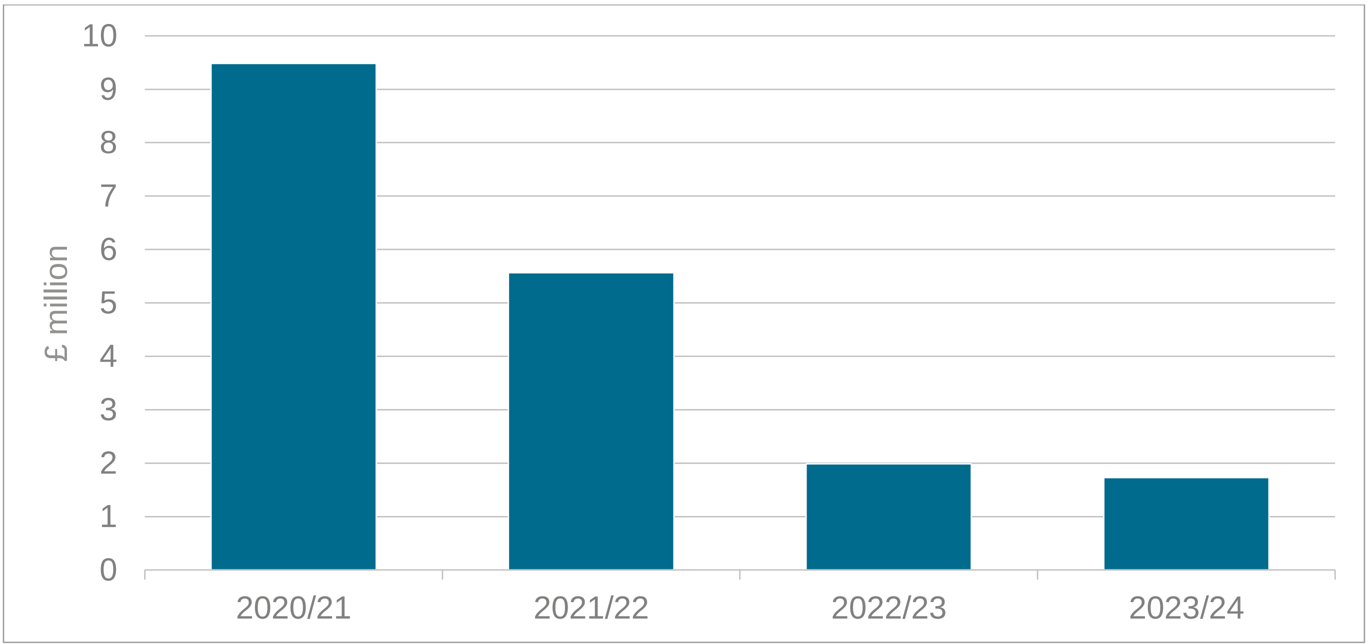
65. We reported in our 2022/23 Annual Audit Report that the college’s cash balances have reduced significantly in recent years, and it was projected that without intervention the college would be in negative cash funds by February 2024.

66. To meet the costs of nationally agreed pay awards, the college required a £4.5 million cash advance from the SFC. This was received across June and July 2024. Without this cash advance, the college had insufficient funds to meet this obligation.

67. An agreement is still to be reached between the college and the SFC on the repayment of these funds with the college advising no terms or conditions were attached to the advance. In accordance with proper accounting requirements given the risk that repayment of this funding advance could be requested at any time, the college have recognised a SFC creditor at 31 July 2024 of £4.5 million.

68. Due to underlying operating deficits in recent years, self-funded voluntary severance schemes and the cost of meeting nationally agreed pay awards, the college's cash and cash equivalents balance has reduced significantly since 2020/21. This is shown in exhibit 5. At the 31 July 2024, the college's cash balance was £1.726 million. In addition to the cash advance, at the 31 July 2024 the college held other advanced funds of £1.516 million, therefore actual cash reserves at the year-end were only £0.210 million.

Exhibit 5
Cash and Cash Equivalents Balance



Source: New College Lanarkshire Annual Reports and Financial Statements

69. The college's liquidity position is a significant financial sustainability concern. The college are unlikely to be able to repay the cash advance received in the short term, and it should therefore ensure a realistic repayment plan is agreed with the SFC.

Recommendation 3

The college should continue to engage with the SFC and seek agreement on the repayment terms of the funding advance. This will ensure that the college's finances can be effectively managed in the short to medium term.

The college is projecting a significant improvement in the college's underlying operating position in 2024/25 with the budget showing an underlying operating position surplus of £0.650 million.

70. The 2024/25 budget was approved by the Board of Management in June 2024. This projected a significant improvement in the college's underlying operating position with the budget showing an underlying operating surplus of £0.640 million (£0.948 million including the college's subsidiary, Amcol).

71. The budget contained some key assumptions which would both increase income and reduce expenditure:

- £0.959 million increase in income received from the undergraduate school partnership with the University of the West of Scotland (UWS).
- £0.245 million increase in income due to introduction of further digital qualifications.
- A £1.5 million reduction in expenditure due to salary savings from the college's voluntary severance scheme.
- A voluntary severance scheme for 2024/25 is not planned, and therefore no severance costs have been included in the budget.

72. The undergraduate school was a key component of the forward plan, which is further detailed in paragraphs 82-84. The forecasted income was based on an initial target of 145 places, and due to success in recruitment, UWS extended the number of places to 200. Initial indications are that the income received will slightly exceed the amount budgeted.

73. The introduction of the undergraduate school, and increased drive by the college to increase other income streams, is a welcome development which should reduce the college's reliance on SFC income. The college should closely monitor its outturn position during 2024/25, and re-assess the assumptions made in the budget to confirm these remain realistic and achievable.

The college's Financial Forecast Return shows an adjusted operating surplus in 2024/25 and 2025/26 before forecasting a deficit in 2026/27

74. The Financial Forecast Return (FFR) is an established part of the SFC's financial health monitoring framework. The FFR allows the SFC to monitor and assess the medium-term financial planning and health of colleges.

75. In May 2024, the college were advised of the format and assumptions to be used for the 2023/24 FFR. The return covered the three-year period to 2026/27. The FFR was considered by the college's Finance Committee and Board of Management. It was submitted to the SFC in June 2024. The accompanying paper explained the format and content of the return, including the assumptions used and the proposed actions to further mitigate the impact of the financial challenges facing the college. The paper also provided additional context for Board members on the current economic and financial pressures being experienced and how these affect the future financial projections.

76. The FFR submitted by the college shows an improved position from previous FFRs due to new income streams, but still indicates that the college face a challenging financial situation over the medium-term. An adjusted operating surplus is projected for 2024/25 and 2025/26, before a deficit is forecast for 2026/27, exhibit 6. The projected cash positions for 2024/25 to 2026/27 are also shown in exhibit 6. The FFR includes Amcol, the college's subsidiary. The FFR suggests the college's cash position is sustainable in the medium term, but this does not include the repayment of the £4.5 million cash advance received from the SFC.

Exhibit 6
New College Lanarkshire FFR (including Amcol) 2024/25 to 2026/27 projected underlying operating and closing cash balance

Description	2024/25 £'million	2025/26 £'million	2026/27 £'million
Underlying operating surplus / (deficit)	£0.948	£0.465	(£0.348)
Closing cash position (does not include repayment of the £4.5 million SFC cash advance)	£0.948	£1.413	£1.048

Source: New College Lanarkshire 2023/24 Financial Forecast Return

The college are considering the sale of non-core assets to increase income and reduce further costs

77. We reported in our 2022/23 Annual Audit Report that the board had approved a number of decisions that changed the delivery of services and resulted in financial savings going forward. This included:

- The sale of Donaldson Place teaching rooms at the college's Kirkintilloch campus with the sale concluding in August 2023.
- Ending the lease at the college's Hamilton campus in July 2023.

- The closure of the college's halls of residence at the Motherwell campus, with this building being re-purposed.

78. Overall, the college has projected this will deliver ongoing savings of around £0.350 million per year and has delivered non-recurring income of £0.138 million.

79. The college are considering the sale of non-core assets to increase income and reduce further costs. At the College Scotland conference in April 2024, the Cabinet Secretary for Education and Skills announced changes to the process for disposal of assets within the college sector. Colleges are being consulted on these changes. The proposals if accepted would result in the college being able to retain all proceeds for asset sales of below £1 million and retain 70% of proceeds for sales above £1 million.

80. Asset disposals are likely to result in changes to service delivery, and could have an impact on, student experience and outcomes. Any future decisions on the sale of assets should be informed by strategic thinking, and consultation and engagement with both staff and trade unions.

The college's financial outlook has improved due to the introduction of new income streams such as the undergraduate school, but there remain concerns over the financial sustainability of the college

81. In our 2023/24 Annual Audit Plan, we identified a significant risk to the college's financial sustainability. New income streams, particularly from the undergraduate school, have improved the college's financial outlook but there remain concerns over the financial sustainability of the college. The success of the undergraduate school and new digital courses, and consistent delivery of the college's credit target, will be fundamental to the college's ability to deliver underlying operating surpluses in future years.

4. Vision, leadership and governance

The college must have a clear vision and strategy and set priorities for improvement within this vision and strategy.

Main judgements

The college have established a Forward Plan which sets out its plans for the future including new income generating initiatives.

Appropriate governance arrangements are in place however, the Regional Strategic Board should continue to review information published on its website to promote openness and transparency and that processes are established to ensure policies are reviewed and updated regularly.

The college reviewed and restructured its management team.

A self-assessment was undertaken against the Code of Good Governance for Scotland's Colleges. A board development plan was developed to take forward actions identified.

A consultation has taken place on proposals to reform the Regional Strategic Board arrangements in the Lanarkshire region, but the outcome has still to be announced.

The Board approved a Forward Plan which included income generation activities through partnership working

82. The Board held a special meeting in February 2024 where they considered and approved their Forward Plan. The plan sets out the college's plans for the future, including new income generation activities and cost reduction measures.

83. The college has established an undergraduate school in partnership with the University of West of Scotland. In August 2024, six new programmes were launched across health and social care, business, digital technologies, science and the arts. The new degrees have been aligned to meet specific skills needs within the Lanarkshire region as identified by key stakeholders such as Skills Development Scotland and North Lanarkshire Council.

84. The forward plan also incorporates other actions that will contribute towards reducing the college's costs. These include asset disposals and repurposing of the Motherwell Halls of Residence and the voluntary severance scheme reference in paragraph 41 that concluded during 2023/24.

85. The plan also reflects the college's refreshed approach to student recruitment and the work being undertaken to improve student retention which will further support the achievement of improving student success outcomes and will contribute towards the ongoing attainment of the college's credit target.

Governance arrangements are in place and the board is supported by standing committees

86. The Lanarkshire Colleges Order 2014 established the Regional Strategic Body. It sets out the required number of board members and outlines specified officers or representatives from both New College Lanarkshire and South Lanarkshire College who should be board members.

87. New College Lanarkshire was designated the Regional Strategic Body for Lanarkshire and South Lanarkshire College was assigned to New College Lanarkshire. The Board of New College Lanarkshire has the following standing committees:

- Finance Committee
- Audit and Risk Committee
- Resources and General Purposes Committee
- Curriculum, Student Affairs and Outcomes Committee

88. The Chairs' Committee, the Nominations Committee and the Remuneration Committee meet throughout the year as required.

89. The South Lanarkshire Principal, Chair, both Depute Principal's, Student President and two staff members attend the Lanarkshire Regional Board but are not all members. The South Lanarkshire College Principal attends the Finance Committee and Curriculum, Student Affairs and Outcome Committee and Audit and Risk Committee. The Lanarkshire Board, Audit and Risk Committee Chair attends the South Lanarkshire College, Audit and Risk Committee. This has been extended to the Chairs of the Finance Committee. From our attendance at the Audit and Risk Committee, we have noted positive outcomes from this arrangement with the sharing of good practice.

90. The audit team have attended all meetings of the Audit and Risk Committee since May 2023. The meetings continue to be hybrid with an option to attend in person or join the meeting virtually through Teams. We have observed the committees' discussions and note that members understand their role and participate in discussions.

91. As part of our audit, we reviewed key policies within the college and Regional Strategic Board. On review, we noted that some policies had not been updated for a significant period of time, are legacy documents from prior to the formation of New College Lanarkshire or have old versions available on the website. The policies we reviewed and noted as being past review dates are detailed below:

- The versions of the Board standing orders and scheme of delegation available on the college website are from 2016, despite the policy being updated most recently in 2023.
- Staff code of conduct: The code of conduct is a legacy policy from Motherwell College in 2011. We understand an updated code of conduct is in draft.

92. The college's disciplinary policies and grievance policies are also all legacy policies that have not been updated since the formation of New College Lanarkshire in 2015. We have been advised that these policies, cannot be updated internally and are with the National Joint Negotiation Committee and their review is ongoing.

Recommendation 4

The college and Regional Strategic Board should establish an annual reporting arrangement to the Audit and Risk Committee to demonstrate that all policies and documents have been regularly updated and are reflective of current arrangements and legislative requirements.

The college reviewed and restructured its management team.

93. The college reviewed their management structure in late 2023. The revised structure included the creation of a Deputy Principal Professional Services role and the deletion of both the Chief Transformation and Chief Finance Officer roles. The Chief Transformation Officer left the organisation at the end of March 2024 and the Chief Finance Officer has taken up the post of Chief Resources Officer.

94. The Executive Board under the new management structure consists of the:

- Principal and Chief Executive
- Deputy Principal - Students and Curriculum
- Deputy Principal - Professional Services
- College Registrar
- Assistant Principal – Education and Student Success
- Chief Resources Officer

95. The Dean posts were also reviewed as part of the management restructure. Dean posts and responsibilities were evaluated, and a decision was made to reduce the number of Dean posts from five to four.

The college aims to conduct its business in an open and transparent manner

96. There is an increasing focus on how public money is used and what is achieved. Transparency means that the public have access to understandable, relevant, and timely information about how the college is taking decisions and how it is using resources such as money, people, and assets.

97. There is evidence from several sources which demonstrate the college's commitment to openness and transparency:

- The agendas, papers and minutes of the Board of Management and other committees are published on the college's website

- The college website provides the public with access to a wide range of corporate information including details of its strategy, performance information, and equality and diversity reporting.

98. Whilst the college demonstrates a commitment to openness and transparency, there are opportunities to improve this further through information being available on the website in a timely manner. In November 2024 at the time of completing the audit field work, we noted that the latest minutes available are for the board and committee meetings are for meetings in March 2024. We would recommend that a process is established to upload minutes on a timely basis following their approval.

The college complies with the Code of Good Governance for Scotland's Colleges

99. The Board of Management is responsible for the overall governance of the college. It is responsible for ensuring the governance framework is operating as intended, together with the monitoring of the adequacy and effectiveness of these arrangements.

100. The Accounts Direction confirms that the latest version of the Code of Good Governance for Scotland's Colleges was issued in September 2022 and was adopted in 2023/24.

101. The Lanarkshire Board undertook a self-evaluation exercise on its effectiveness as the Regional Strategic Body for Lanarkshire as required by the Code of Good Governance for Scotland's Colleges in Spring 2024. Information was gathered from a variety of sources including:

- each board member having a one-to-one session with the Chair between March and May 2024. Questionnaires and personal development plans were utilised to support these discussions

- members completed the board operational effectiveness survey and provided comments on specific aspects of the board's operation as well as having the opportunity to reflect on board activity over the past year and identify ambitions for the board for the next 12 months.

- an appraisal of the Regional Chair was carried out by the Senior Independent Board Member which involved contacting all board members for their views.

102. An evaluation report was presented to the June 2024 board meeting. This report outlined the work that had been undertaken on the board effectiveness review and outlined the processes for the self-assessment exercise. The report also collated suggestions board members had put forward throughout the exercise. These included:

- broadening and strengthening the induction programme for new Board members
- reintroducing the mentoring/buddying programme
- holding information sessions for members on a variety of topics of interest
- arranging strategy sessions out with the regular board meetings to ensure time for discussion and the generation of new ideas
- work with the senior team at NCL to ensure members have sufficient and appropriate information to enable them to participate in board and committee discussions.

103. Actions were identified to take forward some of the suggested improvement actions. The Board approved the final version of the board development plan at their meeting in October 2024.The Audit and Risk committee and Board received progress update reports on the development plan in December 2024.

104. Based on our review of the evidence in support of the college's self-evaluation against the Code of Good Governance for Scotland's Colleges, our knowledge and understanding of the college, together with our assessment of the recommendations in the board development plan compiled following the evaluation, we consider that the college was compliant with the Code of Good Governance for Scotland's Colleges throughout 2023/24.

A consultation to reform the Regional Strategic Board arrangements in the Lanarkshire region has concluded but the outcome has still to be announced

105. In October 2020, the SFC report on the three multi-college Regional Strategic Body's recommended that the Lanarkshire Regional Strategic Body be dissolved, with both colleges managing themselves as separate regional entities. Following this recommendation, a transition plan was set out. There have subsequently been delays in progressing this.

106. The college had initial discussions with the SFC in October 2023 to restart the conversation around the Lanarkshire Strategic Regional Body dissolution. On 16 May 2024, the Minister for Higher and Further Education announced in the Scottish Parliament that he wished to reform the Regional Strategic Boards for Glasgow and Lanarkshire college regions with his preferred option being to dissolve both.

107. A consultation was launched in June 2024 and closed on 20 September 2024. There has been no formal announcement from the Scottish Government on the outcome of this consultation, but we are aware that New College Lanarkshire is keen to dissolve the Lanarkshire Strategic Regional Body and operate as a free-standing organisation.

5. Use of resources to improve outcomes

The college needs to make best use of its resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and stakeholders.

Main judgements

The college has arrangements in place to promote and secure Best Value.

The college have invested time and resource into developing mechanisms to student retention and reduce withdrawals. Key performance indicators continue to show that withdrawal rates remain above the national average.

The college has arrangements in place to promote and secure Best Value

108. The Financial Memorandum between the SFC and fundable bodies in the college sector requires the college to:

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

109. Securing the economical and effective management of the college's resources and expenditure is the responsibility of the Board of Management.

110. Internal audit does not consider value for money as a standalone review; however, they do consider this within all their audits. Internal audit concluded that proper arrangements are in place to promote and secure Value for Money.

111. The college have a Value for Money policy. This sets out their commitment to the pursuit of economy, efficiency and effectiveness across all its activities. The policy objectives include internal audit undertaking value for money studies on specific activities; benchmarking activities against other colleges and promoting a culture of continuous improvement.

112. The policy references different methods that can be utilised to demonstrate and secure best value including benchmarking, competitive tendering, using performance indicators, conducting value for money studies and reviewing the outcomes of an activity.

113. A procurement strategy is in place which outlines the procurement function role in enabling the College to develop objectives and policies relating to the management, efficiency and effectiveness of procurement to obtain best value for money across all purchases and to ensure that procurement activities are undertaken in the best interests of the College to support the College's Strategic Priorities and Objectives.

114. The strategy is reviewed annually and was most recently approved in May 2024 by the Finance Committee. The college also publish an annual procurement report. The latest published report is for 2022/23. This provides a summary of the procurement activity in the year, benefits to the local community and confirmation that this has taken place in line with procurement regulations.

115. We have not undertaken any specific Best Value work in 2023/24. However, based on our findings in this report, we consider that the college has arrangements in place to secure Best Value.

The college's Education Strategy 2023-25 was approved in July 2023. A strategy refresh took place in 2024

116. The Regional Outcome Agreement is a formal signed document between the Lanarkshire Regional Strategic Board (which includes New College Lanarkshire and South Lanarkshire College) and the SFC which commits the college to deliver several outcomes and outputs as a condition of the funding received.

117. The agreement also maps planned outcomes for the region and college to SFC strategic priorities. This is a set of measures for the college that are monitored and reported on by the SFC. The college's funding is closely linked to its performance against these and therefore these measures are a key area of focus for the Board of Management, with most of the SFC strategic priorities covered by the college's own key performance indicators (KPIs) that are linked to its strategy.

118. The college's Education Strategy 2023-25 was approved by the Executive Board in July 2023. The college had a 'Strategy Refresh for 2024' which focussed on three main strands of strengthening the core, diversifying the business model and being a dynamic collaborator within the region.

119. The college's 2025 Strategy sets out the college's vision to: "be Scotland's leading college; delivering excellence." This vision is underpinned by five strategic priorities:

- Strengthening the curriculum
- Expanding our educational outreach
- Partnering to grow
- Simplifying how we work
- Prioritising resource close to the student.

120. The college's performance and their impact against the strategy is measured and regularly reported through its progress against the credit target and student retention rates.

The college reports progress against key performance indicators to the Curriculum and Student Affairs and Outcomes committee

121. The Curriculum and Student Affairs committee met four times during 2023/24. A credit and curriculum update report is presented to each meeting. This update report provides the latest information available for:

- SQA National Results
- 5-year KPI trend for level and mode of attendance
- New College Lanarkshire credits summary

122. The college has continued to face challenges with maintaining sustained improvement in regard to successful outcomes and withdrawal rates remain above the national average. Further commentary on some of these performance measures along with actions being taken to support improving performance are detailed in the sections below.

The college delivered its core credits target in 2023/24

123. The SFC's recurring grant to the college is based on the amount of learning that it delivers. This is measured in units called 'credits' which equate to 40 hours of learning.

124. During 2023/24 the Lanarkshire region delivered 161,709 credits against their target credit allocation target of 160,890. NCL delivered 117,632 credits against their college target of 117,290. The college's internal auditor carries out annual checks to confirm the accuracy of the reported credits and reported their findings to the December Audit and Risk Committee.

Successful student outcomes are below the Scottish average

125. Exhibit 7 shows that the college continues to perform below the Scottish average for successful student outcomes. When comparing the successful outcomes reported for 2023/24 with the prior year, there has been a reduction in all modes of study with the exception of part time HE whereby there was an increase in the level of successful outcomes for students. At the time of writing, the latest available national performance data relates to 2022/23.

126. The college's 2023/24 Regional Outcome Agreement (ROA) with the SFC set projected figures for the areas in exhibit 7. The college has reported on its 2023/24 position in its Performance Report. The college's successful outcomes trend has continued to fluctuate over the past four years and remains below the national average.

Exhibit 7

Successful outcomes - trend analysis 2020/21 to 2023/24

Mode	2020/21	2021/22	2022/23	Scottish average 2022/23	2023/24	2023/24 ROA projection
Full-time FE	59.0%	52.15%	57.8%	63.6%	51.13%	57.0%
Full-time HE	66.0%	59.8%	63.76%	65.5%	56.61%	64.0%
Part-time FE	77.0%	72.4%	76.1%	77.3%	73.8%	70.0%
Part-time HE	78.2%	74.1%	60.2%	78.6%	67.24%	76.0%

Source: New College Lanarkshire Regional Outcome Agreement Dashboard; SFC: College Performance Indicators 2022/23.

Overall withdrawal rates remained stable in 2023/24 although full time early withdrawals have reduced significantly

127. The Annual Engagement Visit by HM Inspectors from Education Scotland took place in December 2023. This highlighted that the college need to take steps to address the high rates of learner withdrawal and to improve rates of learner attainment across all modes of study.

128. Exhibit 8 shows that the withdrawal rate for New College Lanarkshire's full-time students peaked in 2021/22. The withdrawal rate fell from 30.81% to 28.31% in 2022/23 and has remained relatively static in 2023/24, with a slight rise to 28.64%. However, there has been a noticeable reduction in the level of early withdrawals. This was expected following changes implemented around the recording of key performance indicator information.

Exhibit 8

Full-time early and further withdrawals - trend analysis 2020/21 to 2023/24

Mode	2020/21	2021/22	2022/23	2023/24
Early withdrawals	7.91%	11.0%	11.25%	4.86%
Further withdrawals	17.61%	19.81	17.06%	23.79%
Total early and further withdrawals	**25.52%**	**30.81%**	**28.31%**	**28.64%**

Part-time early and further withdrawals - trend analysis 2020/21 to 2023/24

Mode	2020/21	2021/22	2022/23	2023/24
Early withdrawals	3.01%	4.38%	5.28%	4.86%
Further withdrawals	5.63%	6.51%	6.77%	6.83%
Total early and further withdrawals	**8.64%**	**10.89%**	**12.05%**	**12.03%**

Source: New College Lanarkshire Regional Outcome Agreement Dashboard.

129. The Credit and Performance Monitoring Group continued to meet fortnightly during 2023 and 2024. Minutes are taken from all meetings and matters arising are followed up at future meetings of the group. The group routinely monitor progress against achievement of credits and identify actions to support students to successful outcomes and to reduce the level of withdrawals. Progress is tracked throughout the year and updates are provided for standing items of business, including progress towards achievement of the college's credit target, current withdrawal figures, enrolments, priority student status and student funding.

130. The college has developed a retention strategy which aims to mitigate against student withdrawals. The strategy provides a framework to support student retention through a suite of intervention and student support actions. Support can be wide ranging and incorporates the following initiatives:

- Be Well to Do Well Campaign which promotes holistic wellbeing of students
- Be Financially Fit Campaign to break the link between mental health problems and financial difficulties for students
- Getting to know you campaign which seeks to understand the diversity of each student by understanding their uniqueness, behaviours and academic aspirations so that support can be tailored with the aim of enhancing the overall student learning experience
- The student Wellbeing Academies that offer a dedicated space on each main campus to provide comprehensive support for students mental and physical health and overall wellbeing.

131. Information hubs are available on each of the main campus sites. These provide students with details of academic programmes, campus events and career advice. This is further supported by a virtual information hub.

132. The college aim to provide students with a supportive and positive learning experience and staff take opportunities to engage with students frequently not only to provide academic support but to advise of open and welcome events, lifestyle advice and peer monitoring. Arrangements are in place for key support officers to contact students following non-attendance. This provides an opportunity for support to be offered, with link up to the Student Retention Team.

Appendix 1: Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Accounted for Fixed Assets Our audit work identified some issues with the board's accounting treatment for fixed assets. This included issues with assets not being de-recognised when disposed of due to poor underlying records of assets still in use. **Risk –** There is a risk that assets not in use are still included within the college's accounts, and this results in a material misstatement.	The college should review its record keeping arrangements for assets held. The college should introduce procedures to ensure finance are notified timeously of all asset disposals. Exhibit 3, Point 4	**Action Agreed** Responsibility for the whereabouts and maintenance of assets lies with departments. A coordinated exercise between assets managers and finance is required at least once a year to ensure financial records are updated for impairment and disposal. The Financial Controller and Senior Finance Team will create a working group to ensure this is done. This will involve managers from Estates, ICT and the Academic departments, particularly engineering, construction and automotive. **Responsible Officer** Financial Controller **Agreed date** January 2025
2. Employee Pension Contributions Our financial statement audit procedures identified that due to an earnings threshold not being applied accurately in the payroll system some employees in the	All staff that have overpaid employee pension contributions should be notified, and steps taken to reimburse all overpayments. The college should also review its payroll controls to	**Action Agreed** This was missed due to a period of understaffing within the team, with no communication received directly from SPPA to confirm the banding

Scottish Teachers Pension Scheme have overpaid employee pension contributions. **Risk –** There is a reputational risk to the college from the failure to accurately deduct employee pension contributions.	identify why this has occurred and mitigate any similar instances re-occurring. Paragraph 52	changes (the percentages did not change). The team is now aware of this issue and our end of year processes guidance has been updated to reflect this. The College is liaising with SPPA to determine what options, if any, are available to staff in terms of monies overpaid to SPPA. Once we have a response, relevant staff will be notified in writing, and the relevant monies claimed back from SPPA. **Responsible Officer** College Registrar **Agreed date** 31 March 2025
3. SFC Funding Advance In June 2024, to meet the costs of nationally agreed pay awards, the college required a £4.5 million funding advance from the SFC. An agreement has not been reached with the SFC on the return of these funds. **Risk –** There is a risk repayment of the cash advance could be requested at any time, and the college has insufficient liquidity to meet this obligation.	The college should continue to engage with the SFC and seek agreement on the repayment terms of the funding advance. This will ensure that the college's finances can be effectively managed in the short to medium term. Paragraph 69	**Action Agreed** The College is working closely with the SFC on the cash position and have presented a number of options to reduce the cash deficit. These options remain under consideration with the SFC. **Responsible Officer** College Board and Executive **Agreed date** Ongoing discussions as part of the Forward Plan.
4. Policy review Our review of policies identified some that required to be reviewed and updated. There are some historic versions of policies available on the website.	The college and Regional Strategic Board should establish an annual reporting arrangement to the Audit and Risk Committee to demonstrate that all policies and documents have been	**Action Agreed** The recommendation is accepted, although it should be recognised that the legacy policies relating to disciplinary and grievance cannot be updated internally and

Risk – There is a risk that policies do not reflect current arrangements.	regularly updated and are reflective of current arrangements and legislative requirements. Paragraph 92	are with the National Joint Negotiation Committee for review. **Responsible Officer** College Registrar **Agreed date** January 2025 onwards, with an end of year report to the Audit and Risk Committee.

Follow-up of prior year recommendations

1. Project management of the Annual Report and Financial Statements The accounts were not provided to audit in line with agreed timescales. **Risk:** The accounts are not signed in line with statutory deadlines.	Ensure adherence to the project plan for the co-ordination and delivery of the annual report and financial statements. All officers involved in the preparation of the annual report and financial statements should agree to the plan and deliver their part of the plan in line with the agreed timescale to ensure all information is available prior to the commencement of external audit.	The project plan for the production and delivery of the accounts was established and adhered to for the 2023/24 year-end. The annual accounts and underlying working papers were provided in accordance with the agree audit timetable. **Action complete.**
2.Disclosures in the Annual Report and Accounts Our review of the disclosures within the unaudited Annual Report and Financial Statements identified areas where improvements were required to ensure compliance with the applicable guidance. These areas included the Performance Report, Governance Statement and the Remuneration and Staff Report. This was not new guidance. **Risk:** Disclosures do not comply with the applicable guidance.	As part of the preparation for the 2023/24 Annual Report and Financial Statements, management should consider the disclosures against the required guidance and Audit Scotland's good practice notes on these areas, instead of reliance on previous audited templates.	**Partially complete** The Performance Report, Governance Statement and the Remuneration and Staff Report received as part of the unaudited Annual Report and Financial Statements was significantly improved. Changes were however still required in several areas to comply with mandatory guidance.

3. Review of Non-Current Asset information within the fixed asset register and the financial statements Where assets are no longer in use they should be formally scrapped or sold. An exercise needs to take place to ensure that the fixed asset register agrees to the assets still physically held by the college. FRS 102 requires colleges to include a disclosure within their financial statements showing the carrying amounts of assets that would have been recognised had the assets not been carried under the cost model. **Risk**: There is a risk that the non-current asset disclosures include assets the college no longer has.	Management should conduct a detailed review of all assets with a nil book value to ensure any fully depreciated assets still in use are revalued and depreciated over their remaining useful economic life. Collate the relevant information from the fixed asset register and underlying financial records to comply with the FRS 102 disclosure requirement for historic cost model information to be included within the financial statements.	**Partially complete** See recommendation 1 A disclosure has been added to the financial statements showing the historic cost of assets had they not been carried under the cost model. This is a requirement of FRS 102. **Action complete.**
4. Untaken Holiday Liability The college is required to calculate the estimated cost of untaken annual leave at 31 July 2023 that can be carried forward and used during 2023/24. Our review of the college's approach to the calculation of the untaken liability identified that it was based on untaken leave estimates from 2018. Whilst we acknowledge that the methodology applied to the accrual was agreed with the college's previous auditors, we were unable to obtain information to demonstrate that this remained a reasonable estimate of untaken leave at 31 July 2023. **Risk:** The untaken holiday liability is inaccurately stated in the college's financial statements.	The college should collate accurate data on the value of untaken annual leave at the year-end to ensure the untaken holiday liability is accurately calculated.	The college updated the underlying information which the untaken holiday liability is based on. **Action complete.**
5. ICT Disaster and Recovery Plans The ICT Disaster Response Plan was last updated in 2019. The	Establish a programme to regularly review, refresh and test disaster recovery and	**In Progress** **Management update on progress:**

Cyber Incident Response Plan is under development. We have not been able to review details of when disaster response or recovery arrangements were last tested.	response plans to ensure these remain appropriate.	In line with recommendations relating to the JISC Infrastructure review, the introduction of a new Cyber Security Officer (CSO) role is being proposed as part of the ongoing Professional Services Review. Upon successful approval and appointment, the CSO will be responsible for developing and implementing the Cyber Incident response plan. The college server, storage and backup infrastructure was upgraded in March 2024. Since then the ICT team have been working to migrate the on-premise systems to the new infrastructure. When the migration has been fully completed the Disaster Recovery processes and procedures will be updated and the annual testing regime will be re-instated. **Responsible Officer** Head of ICT and Deputy Principal of Professional Services **Agreed date** June 2025
6. Financial sustainability concerns The college's 2022/23 Financial Forecast Return highlights significant financial pressures with negative cash funds projected by February 2024. **Risk:** The college faces significant challenges to remain	Given the scale of the identified financial pressures, the college should continue discussions with the Scottish Funding Council around the financial recovery plans.	**Superseded by recommendation 2**

financially resilient and improve its cashflow position.		
7. Availability of information There are opportunities to improve the availability of information through the college website. Key information is missing, and the functionality of the website could be enhanced. **Risk:** College stakeholders are not able to locate key information on the college website.	Review the information available on the college website, and optimise its functionality, to enhance the availability of key information.	**Action partially complete** The college has reviewed the board section on the website as part of the development of the new website. The register of interest, meet the Board and the boards dates for the next year have all been updated. We did note at the time of the annual audit of the financial statements that board and committee minutes and papers are only available up to March 2024 and that arrangements should be established to ensure these are uploaded in a timely manner. **Responsible Officer** Board Secretary **Agreed date** After each Board cycle

New College Lanarkshire

2023/24 Annual Audit Report

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