South Lanarkshire College

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for South Lanarkshire College and the Auditor General for Scotland

November 2024

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3 A historical operational failure resulted in college employees overpaying pension contributions. Payroll specialists have been engaged, and progress is being made with the college's project plan to review all individuals potentially impacted. To date, £0.119 million in overpayments have been reimbursed to 71 people.

Financial sustainability

4 The college is operating in an increasing challenging financial environment. The financial health of the sector has deteriorated since 2021/22, with funding settlements requiring colleges to make difficult decisions to achieve financial sustainability. The college's 2024/25 budget reflects these challenges. In response it has reviewed its operations and is putting in place arrangements to ensure its financial sustainability in the medium-term.

Vision, leadership, and governance

5 The college complied with the Code of Good Governance for Scotland's Colleges in 2023/24.

Use of resources to improve outcomes

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

7 The college has a clear strategic plan, and its performance has continued to be strong in key areas during 2023/24.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of South Lanarkshire College (the college). The scope of the audit was set out in our Annual Audit Plan presented to the 9 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 £25,590 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.

The Annual Report and Financial Statements are schedule to be certified by the 31 December 2024 deadline. This is despite significant resourcing pressures with the college's Finance function.

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 are to be approved by the Board of Management on 26 November 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 Annual Report and Financial Statements are schedule to be certified by the 31 December 2024 deadline. This is despite significant resourcing pressures with the college's Finance function.

13. The audited Annual Report and Financial Statements are on track to be certified by the 31 December 2024 deadline. The unaudited document provided to the audit team was an improvement on last year. However, there remained several incomplete sections of the report, including areas that had not been updated from the prior year.

14. Whilst workforce planning and resourcing are operational matters for the college, in our view the Finance function is under resourced. There were limited staff on hand to support the audit, with the Vice Principal - Finance, Resources & Sustainability (VP) being the main point of contact which, in our experience, is unusual given her seniority and strategic position within the college. Since the retirement in October 2023 of the previous Head of Finance (HoF), the college has been unsuccessful in recruiting a replacement to this role. As a result, the VP is, in our view, having to undertake too many operational tasks and is in effect performing the role of HoF alongside her VP role. Management is aware of this issue and have engaged with an external recruiter to help fill the HoF role.

15. We are drawing this issue to members attention given the pressures this is placing on the VP. Time and resource pressures on the VP have the potential to impact on reporting arrangements and the ability to respond to emerging issues and risks. This overreliance on one individual is not sustainable.

Our audit testing reflected the calculated materiality levels.

16. 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 this. 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).

17. 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
Audit Scotland materiality levels.

Materiality level	Amount
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.	£0.380 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, we calculated performance materiality at 60% of planning materiality.	£0.228 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.019 million

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.

18. 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 these risks together with the work we undertook to address them and our conclusion from this work.

Exhibit 2

Audit Scotland identified 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. Focussed testing of accounting accruals and prepayments.	**Results:** We assessed the design and implementation of controls over journal entry processing. No 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 override of controls from the work performed.

2. Revaluation of land and buildings The college held land and buildings with a net book value of £49.428 million as at 31 July 2023. In line with the government financial reporting manual (FReM) these assets are revalued on a three-year cycle. A revaluation was undertaken in 2020/21. As such, a full revaluation of these assets is due in 2023/24. **Risk:** 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.	Review the information provided to the valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. Test the reconciliation between the financial ledger and the asset register. Critically assess the adequacy of the college's disclosures regarding the assumptions in relation to the valuation of other land and buildings.	**Results:** Except for the building size data (exhibit 3), we did not identify any issues with the information provided to the valuer. Our review of the external valuer confirmed the appropriateness of the methodology and assumptions used. We did not identify any non-compliance with RICS guidance. We found that management have an appropriate level of involvement and oversight of the valuation process. We did not identify any issues with the reconciliation between the financial ledger and the property asset register. We found that appropriate disclosures have been made regarding the assumptions in relation to the valuation of land and buildings. **Conclusion:** No issues were identified with the assumptions applied to the revaluations.

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

- **Pension balance:** We confirmed that valuation data in the actuarial report was correctly reflected within the Annual Report and Financial Statements, and reviewed the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used. We have commented further on the pension balance in exhibit 3.

- **New payroll system:** This was due to become operational in 2023/24. However, management confirmed testing was ongoing during the year, so it was not used in the production of the 2023/24 Financial Statements. Therefore, we removed this as a risk to our audit.

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

20. Following our audit, adjustments with a gross total of £2.725 million were made to the Annual Report and Financial Statements. As this total was above our performance materiality, where required, we amended our audit approach.

21. The main issues identified that resulted in adjustments are detailed at points one and two of exhibit 3. In addition, the following was adjusted for:

- **Provision for early retirals:** Following our review, an adjustment (reduction) of £0.102 million was made to the college provision balance. The calculation is now based on more up to date information with regards to the life expectancy of the former employees.

22. 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, except for the asset size point as explained in exhibit 3. The correction of these adjustments contributed to the deficit in the Statement of Comprehensive Income (SoCI) increasing by £1.329 million. There was an increase of £0.246 million in the college's net assets.

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

23. 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.

24. 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.

25. Our significant findings are detailed in exhibit 3.

26. Several presentational and disclosure amendments were discussed and agreed with management. 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
Audit Scotland significant findings from the audit of the Annual Report and Financial Statements.

Issue	Resolution
1. Accounting for fixed assets Our review of the accounting treatment of fixed assets identified the following issues: • **Revaluation:** £1.192 million was incorrectly removed from the 2023/24 revaluation of buildings. This related to a transfer from 2008/09 and inaccurately reduced the value of buildings in the asset register. • **Residual value:** Buildings held a residual value of £10 million. This has been removed following consideration of the Depreciated Replacement Cost (DRC) valuation. Given the specialised nature of the assets this is appropriate. • **Asset size:** We requested the underlying records in support of the buildings size. On receipt it was identified there was a discrepancy in the area used for the valuation, albeit the size used was consistent with the previous valuation. Whilst not material, we calculated a difference of £0.250 million. • **Loss on revaluation:** Land and buildings were revalued in 2023/24. This resulted in a loss of £0.152 million to the annexe. This was incorrectly processed as a decrease in the revaluation reserve rather than impairment to the Statement of Comprehensive Income. • **Fully depreciated assets:** Our review of the asset register identified assets with an original cost and accumulated depreciation of £3.803 million.	• **Revaluation:** Management have adjusted for the transfer. The valuation is now accurately reflected in the fixed asset register. This resulted in an increase to the balance sheet of £1.192 million. • **Residual value:** Removing the residual value of buildings has resulted in an increased depreciation charge of £0.233 million. • **Asset size:** Given the difference would not be material we did not request an updated valuation report, but this issue reinforces the need for a review of the underlying fixed asset records. • **Loss on revaluation:** The loss has now been accounted for as impairment within the Statement of Comprehensive Income. This has resulted in an increase to expenditure of £0.152 million. • **Fully depreciated assets:** Where assets are no longer in use they should be formally scrapped or sold. Significant assets continuing in use should be revalued and depreciated over their remaining useful economic life. The college should undertake a review of these assets (**Recommendation 1** – Appendix 1 action plan).

Issue	Resolution
2. Job Evaluation The 2023/24 Accounts Direction was late in being issued by the Scottish Funding Council (SFC). When issued it referred to 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 £0.177 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) in 2023/24. 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 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.	Management have adjusted the audited Annual Report and Financial Statements to reflect this new guidance. This revised treatment is compliant with the Statement of Recommended Practice (SORP) and the relevant underlying accounting standards. The impact of this adjustment was to increase staff costs by £1.045 million within the SoCI. There was a corresponding increase in the provisions balance to recognise the potential future costs of the Job Evaluation exercise to the college.

Issue	Resolution
3. Pension balance The pension balance represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this liability. The college is a member of Strathclyde Pension Fund. Valuation of pension fund assets and liabilities is assessed by an independent firm of actuaries (Hymans Robertson LLP). Pension assets and liabilities are calculated annually for each individual member body, by the actuary, for inclusion in the Annual Report and Financial Statements. Annual valuations are dependent on a number of external variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates, and mortality estimates. The Strathclyde Pension Fund actuary provided an estimate of the college's asset as at 31 July 2024. The college's 2023/24 valuation showed an asset of £6.263 million (2022/23: asset of £5.758 million). The amount that can be recognised as an asset is limited to the estimated future service cost less the minimum contribution required, otherwise known as the asset ceiling. As required by accounting standards, the asset shown in the college's Statement of Financial Position has been reported as a nil balance.	This is included for information. We are satisfied that the college's disclosure, and accounting treatment, of its pension balance complies with required accounting practices.

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 reported an operating deficit of £1.677 million and an adjusted operating surplus of £0.378 million for the year to 31 July 2024.

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

A historical operational failure resulted in college employees overpaying pension contributions. Payroll specialists have been engaged, and progress is being made with the college's project plan to review all individuals potentially impacted. To date, £0.119 million in overpayments have been reimbursed to 71 people.

There were no significant weaknesses identified from our review of the design and implementation of the key controls within the main financial systems. However, areas for improvement were notified to management.

The college reported an operating deficit of £1.677 million and an adjusted operating surplus of £0.378 million for the year to 31 July 2024.

27. The college reported an operating deficit for the year to 31 July 2024 of £1.677 million (£1.023 million in 2022/23) in its Statement of Comprehensive Income (SoCI). The position reported in 2023/24 is reflective of the challenging financial environment the college has been operating in. Despite these challenges, the college was successful in delivering its credit targets for 2023/24, with this linked to most of its income recognised in the Financial Statements.

28. 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 for comparisons across the sector, the Scottish Funding Council (SFC) 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.

29. The adjusted operating position of the college, reported within the Performance Report, shows a surplus of £0.378 million for the year to 31 July 2024 (deficit of £0.253 million in 2022/23). This surplus reflects the significant amount of in year work, forecasting and budgeting monitoring, undertaken by management to ensure the efficient and effective use of college funds.

The college, and the sector, remains increasingly reliant on SFC funding.

30. SFC grant funding accounted for 81% 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%.

31. The college's Financial Forecast Return (FFR) indicates that SFC grant income will account for 82% of the college's total income next year, exhibit 5. Further comment on the 2024/25 budget and the FFR is detailed in section 3 of this report.

The college's staff costs as a percentage of its total expenditure are below the national average, reflecting the work undertaken by management to manage this cost base.

32. Staff costs accounted for 66% of the college's total expenditure in 2023/24 (74% in 2022/23), exhibit 4. The national average, based on the SFC's financial sustainability review of colleges, was 69%. The college was proactive in its vacancy management during 2023/24. Management report that the action taken resulted in staff cost savings of £0.420 million.

33. The college's FFR indicates that staff costs will account for 68% of the college's total expenditure next year, exhibit 5. Further comment on the 2024/25 budget and the FFR is detailed in section 3 of this report.

Exhibit 4

Analysis of income and expenditure per the college's 2023/24 Annual Report and Financial Statements.

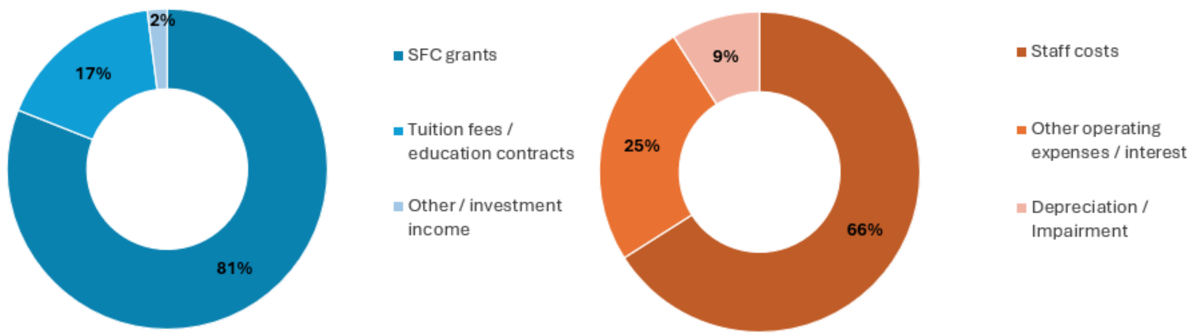

Exhibit 5
South Lanarkshire College FFR 2023/24 to 2026/27 - projected SFC income and staff costs 2024/25 to 2026/27.

Description	2024/25	2025/26	2026/27
SFC income as a percentage of overall college income	82%	80%	80%
Staff costs as a percentage of overall college expenditure	68%	72%	73%

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

34. The college monitors its budget position through the budget monitoring reports presented to each meeting of the Finance and Resources Committee. The budget monitoring reports provide an overall picture of spend against budget, disclose the forecast outturn, and include a good level of detail in the narrative to explain the main budget variances.

35. From our review of budget monitoring reports and other relevant 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.

A historical operational failure resulted in college employees overpaying pension contributions. Payroll specialists have been engaged, and progress is being made with the college's project plan to review all individuals potentially impacted. To date, £0.119 million in overpayments have been reimbursed to 71 people.

36. In 2015, both college pension administrators Strathclyde Pension Fund (SPF) and Scottish Public Pensions Agency (SPPA) advised the college of a change in calculation of the employee contribution rate for part-time members. The change moved from using the "full-time equivalent salary" to determine the contribution percentage rate to using "actual earned" income. For most part-time employees, this would result in a lower employee contribution percentage rate being applied and, therefore, a lower employee contribution amount being contributed. The employer contribution did not change.

37. In 2023/24 Internal Audit undertook a review of the pension calculations for a sample of employees and identified a systemic error in the way that pension contribution rates had been applied for part-time staff who are members of the SPF and SPPA pension schemes. This has resulted in a higher rate of employee contributions being deducted from the employees, and therefore submitted to the pension agency, and incorrect reporting of additional contributions beyond the published contribution rate. This issue was identified as an area of risk in our 2023/24 Annual Audit Plan.

38. Following the internal audit review, the college finalised its project plan with its payroll specialists (Henderson Loggie). The college implemented a prioritisation order, focussing on priority cases (existing staff, and then ex-colleagues). The case reviews are in tranches of 30 and in total around 190 individuals will be covered by this work. The project is likely to last until the end of February 2025. The consultancy costs for this work have so far totalled £0.024 million.

39. In discussion with management and the payroll specialists, it was confirmed that:

- To date 81 cases have been reviewed and signed-off by the college. The individuals have been notified of the outcome. 71 were found to have overpayments. These totalled £0.119 million. Management have confirmed those individuals impacted have been reimbursed in full.
- Work on the remaining cases is well progressed. Tranches four to six have been passed to the college for review and sign-off. The draft findings suggest similar figures to tranches one to three.
- The payroll specialist engaged with the schemes to confirm the mechanism for reimbursement. They also consulted with the Pension Regulator to explain the issue. The Regulator was satisfied that there was no requirement for them to be involved.
- The college will reimburse the individuals and following agreement with the pension schemes, will offset this cost by reducing contributions made to them. As such, there will be a net nil impact on the college.
- As employees paid less tax due to the initial overcontribution, following reimbursement, the individual is then liable for the outstanding tax on this.
- The college has confirmed it will not be paying interest on the overeducated amounts. We were advised that those impacted, together with Trade Unions, were cognisant of this and that no disagreement was expressed. Management have been in regular communication with the Unions throughout the year.

40. The college disclosed this control failure in its 2023/24 Governance Statement. From our attendance at Audit and Risk Committee meetings over the year, progress with the project plan was regularly reported to members and subject to review and scrutiny.

41. As with all tax issues we would encourage early engagement with HMRC. In February 2024 we advised management to contact HMRC, noting the remedial action being taken. In November 2024, it was confirmed to us that HMRC have yet to be made aware of this issue. The payroll specialist advised that on conclusion of the project in early 2025, details of the findings will be sent to HMRC. However, we would encourage the college to remain proactive in its attempt to discuss this matter with HMRC and send it a pre-emptive letter outlining the issue and the remedial action currently underway. A contingent liability, for potential future fines from HMRC, has been disclosed in the 2023/24 Financial Statements.

There were no significant weaknesses identified from our review of the design and implementation of the key controls within the main financial systems. However, areas for improvement were notified to management.

42. We evaluated the design and implementation of the key controls operating over the main accounting systems. Our objective was to gain assurance that systems for processing and recording transactions provide a sound basis for the preparation of the Financial Statements.

43. We did not identify any significant control weaknesses from this work. However, a small number of control improvements were identified. These were communicated to management who have agreed to action for 2024/25.

Internal audit reported that, except for its work on the historic pension contributions issue, the college had adequate and effective risk management, control, and governance arrangements in place during 2023/24.

44. The college's internal audit function is carried out by Henderson Loggie. 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.

45. 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, except for the issues detailed at paragraphs 36 to 41, the college had adequate and effective arrangements for risk management, control, and governance in place during 2023/24.

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

46. The college has a range of established procedures for preventing and detecting fraud and irregularity including whistleblowing, fraud and gifts and hospitality policies and codes of conduct for staff and members of the Board of Management.

47. The college continues to participate in the National Fraud Initiative (NFI). This is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The college engaged positively with the process and reviewed all very high-risk matches.

48. 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, or any instances of business decisions being taken that did not appear to reflect value for money.

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 is operating in an increasing challenging financial environment. The financial health of the sector has deteriorated since 2021/22, with funding settlements requiring colleges to make difficult decisions to achieve financial sustainability. The college's 2024/25 budget reflects these challenges. In response it has reviewed its operations and is putting in place arrangements to ensure its financial sustainability in the medium-term.

The college is operating in an increasing challenging financial environment. The financial health of the sector has deteriorated since 2021/22, with funding settlements requiring colleges to make difficult decisions to achieve financial sustainability.

49. In its Scotland's colleges 2024 report Audit Scotland highlight the significant reduction in funding to the sector. Funding for colleges reduced by £32.7 million in cash terms in 2024/25 and has reduced by 17% in real terms since 2021/22. The report also notes that colleges are forecasting reducing cash balances, which may present a risk to their ability to continue in their current form. The lack of clarity from the Scottish Government (SG), on sectoral reform for example, is causing continuing uncertainty and making it more difficult for colleges to plan effectively. Taken together, the college sector faces challenging years ahead.

50. The Audit Scotland report emphasises the need for the SG and the Scottish Funding Council (SFC) to clarify the expectations and priorities for the sector for the medium and long-term but also support colleges in planning for change now and making best use of available funding.

The college's 2024/25 budget reflects this challenging financial environment. The college has reviewed its operations and is putting in place arrangements to ensure its financial sustainability in the medium-term.

51. The 2024/25 budget was approved by the Board of Management in June 2024. This outlined a budgeted deficit of £1.308 million for 2024/25. The budget paper was supported by extensive narrative on key assumptions and set out the significant challenges to the college's finances.

52. The Scotland's colleges 2024 report notes that as the scale of the challenge to colleges financial sustainability continues to increase, they need to make difficult savings decisions to manage their financial positions. To that end, South Lanarkshire College has undertaken a review of its operations to help bridge the budgeted deficit and to ensure its financial sustainability in the medium-term. Identified actions include:

- The opening of a voluntary severance scheme (VSS).
- A review, and where required, a rationalisation of its curriculum offer to ensure it remains an attractive destination for students. In some cases, this may present opportunities for voluntary severance where spare capacity with lecturing staff is identified.
- Review of the college estate to maximise occupancy and identify areas for additional income streams into the college.
- Creation of a Business, Enterprise, and Innovation Team to ensure employer and industry focused courses are provided. The team will engage with employers in the region to sustain future course delivery and employment opportunities for learners.

53. Staff costs continue to account for around 70% of the college's cost base. The college does not have a history of running VSS. However, it has identified the need to run a VSS in 2024/25 to help realise savings in the medium-term.

54. The college recognises the importance of its staff to the delivery of its priorities and outcomes. Any future decisions on the reduction of this cost base should be informed by strategic thinking, comprehensive workforce data and ongoing consultation and engagement with staff and trades unions to balance the negative impact on staff morale, student experience and outcomes.

55. To that end, a business case to support the VSS has been prepared and considered by the Finance and Resources Committee, Human Resources Committee and Board of Management for scrutiny and approval. Additionally, the college requires approval from the Lanarkshire Regional Strategic Body for any voluntary severance proposal prior to any submission to the Scottish Funding Council. To ensure a robust and transparent process, the college has established a Voluntary Severance Committee. This will be made up of members of the Senior Leadership Team and Human Resources. The college anticipates having the finalised business case approved by December 2024.

56. Management acknowledge that it is unlikely that all the required savings will be made in 2024/25, as there is no way of knowing how many staff would be likely to apply for voluntary severance, but as evidenced by its June 2024 Financial Forecast Return (FFR), significant savings are anticipated in the medium-term.

The Financial Forecast Return reflects the anticipated benefits from the college's operations review, with small surpluses forecast in the medium-term.

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

58. 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 and Resources 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.

59. The FFR submitted by the college indicated a challenging financial position over the medium-term. An adjusted deficit is projected for 2024/25 with a return to small surpluses then forecast for later years, exhibit 6. The projected underlying closing cash positions for 2024/25 to 2026/27 are also shown in exhibit 6. The college has identified that its cash position is sustainable for the short-term but there remains a financial sustainability risk in the medium-term as cash reserves will be utilised to fund the VSS.

Exhibit 6
South Lanarkshire College FFR 2023/24 to 2026/27 adjusted operating and closing cash balance positions.

Description	2024/25 £'million	2025/26 £'million	2026/27 £'million
Adjusted operating surplus / (deficit)	(£0.692)	£0.441	£0.211
Closing cash position	£0.823	£0.229	£0.238

60. The SFC's Financial Memorandum with colleges requires them to plan and manage their activities to remain sustainable and financially viable. The SFC expects colleges to aim to achieve a balanced budget each year. However, where a deficit is projected in any year, colleges should have plans in place to achieve a balanced position over the forecast period.

61. As discussed at paragraph 52 the college has identified actions that it hopes will ensure its financial sustainability in the medium-term. It is too early to say whether these actions are having the desired effect.

62. The college has well-established budget monitoring and financial management arrangements in place and has a history of delivering on its credits target. These will be important in ensuring it withstands the challenging forecasted financial demands that will continue during 2024/25 and into the medium-term. However, until such time as either additional funding is made available or the college can identify and implement cost efficiencies and develop its additional income streams, we consider there remain concerns over the financial sustainability of the college in the medium to longer-term.

4. Vision, leadership, and governance

The college must have effective scrutiny and oversight arrangements in place and be transparent in the reporting of its key strategic decisions.

Main judgements

The college complied with the Code of Good Governance for Scotland's Colleges in 2023/24.

The college conducts its business in an open and transparent manner.

A new Chair of the college's Board of Management was appointed in 2023/24.

The college complied with the Code of Good Governance for Scotland's Colleges in 2023/24.

63. 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.

64. The 2023/24 Accounts Direction confirmed that the 2022 version of the Code of Good Governance for Scotland's College (the Code) applied for 2023/24.

65. The college has assessed the overall effectiveness of its corporate governance against the Code. Within its 2023/24 Governance Statement, the college discloses that*: The college complies in full with the principles and requirements of the 2022 Code of Good Governance for Scotland's Colleges.* As part of this disclosure, clarity on the role of Board Secretary is then provided, noting the college's Governance Professional, who has some management duties within the college Principalship, fulfils the role of Board Secretary. The college's Board of Management is satisfied with the arrangements put in place by the college to avoid any conflicts of interest arising from this individual's dual responsibilities. We have not identified any issues with this arrangement. The college has disclosed this arrangement in its Governance Statement.

66. The Code requires the college's Audit and Risk Committee (ARC) to support the Board of Management and the Principal by reviewing the comprehensiveness, reliability and integrity of assurances including the college’s governance, risk management and internal control framework.

67. From our attendance at ARC meetings during the year, members demonstrate an understanding of their responsibilities and there was scrutiny and challenge of management, internal and external audit.

68. Based on our review of the evidence in support of the college’s self-evaluation against the Code and our knowledge and understanding of the college, we consider that it was fully compliant with the Code throughout 2023/24.

The college conducts its business in an open and transparent manner.

69. 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.

70. 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 on a timely basis.
- The college makes its Annual Report and Financial Statements available on its website. These include a Performance Report which adequately explains the college’s financial performance and use of resources for the year.
- 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.

A new Chair of the college’s Board of Management was appointed in 2023/24.

71. The Board Chair’s second term of office ended in 2023/24, and they were succeeded as Chair by the former Vice Chair in March 2024.

72. The South Lanarkshire College Board of Management had 17 members as at July 2024, including two staff representatives, two student representatives, two trade union members and the Principal. The college continues to meet its responsibilities under the terms of the Post-16 Education (Scotland) Act 2013. The Act states that the college Board of Management cannot operate legally with fewer than 13 members and should have no more than 18.

Consultation is underway around the process to dissolve the Lanarkshire Strategic Regional Body.

73. As part of its October 2022 review into Scotland's three multi-college Regional Strategic Body's' the SFC recommended that the Lanarkshire Strategic Regional Body be dissolved, with both colleges managing themselves as separate regional entities.

74. In June 2024, the Scottish Government launched a consultation on changes to the regional arrangement in Lanarkshire which closed in September 2024. There has been no formal announcement from the SG on the outcome of this consultation, but we are aware that South Lanarkshire College is keen 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 has a clear strategic plan, and its performance has continued to be strong in key areas during 2023/24.

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

75. The Financial Memorandum (FM) sets out the formal relationship between The Lanarkshire Board and South Lanarkshire College (SLC) and the requirements with which SLC must comply in return for payment of grant funding by The Lanarkshire Board. The FM requires SLC 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.

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

77. Internal audit does not consider value for money as a standalone review; however, they consider this within all their audits. Internal audit did not raise any concerns over value for money in 2023/24 and their annual report for 2023/24 provided their opinion that '…proper arrangements are in place to promote and secure Value for Money'.

78. 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. This is evidenced through:

- a clear Strategic Plan and performance reporting, including its framework for continuous improvement.
- established governance and decision-making framework.
- recognition that strategic priorities must be delivered within the financial and workforce resources available.

The college has a clear strategic plan, and its performance has continued to be strong in key areas during 2023/24.

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

80. 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. As such, 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.

81. The college's strategy 2020 - 2025 sets out its vision to: "be Scotland's leading college; delivering excellence." This vision is underpinned by three strategic priorities:

- Successful students
- Highest-quality education and support
- Sustainable behaviours

82. Each of the strategic priorities have a number of KPIs assigned to them. Data from the 2018 Annual Report and Financial Statements was used as the baseline. The colleges performance is reviewed by the Board of Management and details of the college's progress against the strategic priorities and KPIs is reported annually in the Annual Report and Financial Statements and to the Board of Management each December.

83. The performance data suggests that overall, the college's performance has improved in 2023/24. Further comment on some of these performance measures is detailed in the sections below.

The college delivered on its core credits target in 2023/24.

84. 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. The college has a strong track record of meeting and exceeding its credits targets and again exceeded the SFC core target (43,601 credits), reporting delivery of 44,313 credits in 2023/24. The college's internal auditor carries out annual checks to confirm the accuracy of the reported credits.

The college's successful student outcomes are above the Scottish average.

85. Exhibit 7 shows that the college continues to perform well when compared with the Scottish average for successful student outcomes (SFC: College Performance Indicators 2022/23). It remains one of the best performing colleges in Scotland for full-time further education (FE) and full-time higher education (HE) outcomes in 2022/23. At the time of writing, the latest available national performance data relates to 2022/23.

86. The college's 2023/24 Regional Outcome Agreement 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 remains positive and above the Scottish average based on the 2022/23 data.

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	62.3%	60.8%	72.8%	63.6%	69.2%	61.3%
Full-time HE	77.9%	68.7%	68.3%	65.5%	68.3%	72.1%
Part-time FE	78.4%	73.9%	82.0%	77.3%	84.1%	76.3%
Part-time HE	85.7%	80.4%	74.0%	78.6%	78.5%	81.3%

The college continues to have a lower withdrawal rate when compared to the national position.

87. The SFC: College Performance Indicators 2022/23 data shows that for 2022/23, nationally, there has been a decrease in FE withdrawals (25.3%). South Lanarkshire College's full-time FE withdrawals rate of 17.1% was significantly below the national average for 2022/23 and is an improvement on its 2021/21 position (19.9%). Its full-time HE withdrawal rate was 18.6%, down from 21.5% and was below This was below national average of 20.6% for 2022/23.

The college is facing increased competition for student enrolments but is confident of achieving its 2024/25 credits target.

88. The 2022/23 total sector student enrolments of 329,920 is the highest it has been in the last 10 years (College Statistics 2022/23).

89. The college reports regularly on student recruitment to its Curriculum, Quality and Development Committee. A paper taken to the committee in August 2024 noted that applications are on a par with previous years.

90. The college remains confident of meeting its credits target for 2024/25, but it is proactive in tackling potential recruitment challenges. It continues to engage with schools to highlight the college as a viable next step and it has invested in paid promotional and advertising activities to raise awareness of its offering. It has taken steps to revise its curriculum to reflect the national funding reduction in 2024/25. The curriculum review also ensures that the needs of industry partners are being met. In doing so the college aims to focus on the quality of its provision and recruitment to areas of high demand.

91. The college's funding is closely linked to student success, retainment, and recruitment rates. Maintaining these will be important if the college is to meet its 2024/25 credits target. This has funding implications for the college as substantial reductions in its student numbers would add to its already challenging medium-term financial position.

Appendix 1: Action plan 2023/24

2023/24 and follow up of prior year (PY) 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Asset register – fully depreciated assets Where assets are no longer in use they should be formally scrapped or sold. Significant assets continuing in use should be revalued and depreciated over the remaining useful economic life. **Risk:** Depreciation may not be charged on assets in use.	Where significant fully depreciated assets are still in use they should be revalued and depreciated over their remaining useful economic life. Other assets should be considered for disposal. Exhibit 3	**Action Agreed** **Management response** The college notes that additional work is required internally across 2024/25 to ascertain status of fully written down assets to advise of any potential reinstatement of asset value, should it be required for more significant assets that remain on the fixed asset register. **Actioned by** VP Finance, Resources & Sustainability. **Actioned by** 30 September 2025
PY 1. Disclosures in the Annual Report and Financial Statements The Performance Report, Governance Statement and Remuneration and Staff Report required updating to ensure compliance with the FReM, SPFM and Accounts Direction. Management have now included all relevant disclosures but should review arrangements for preparing the Annual Report and	Management should review all sections of the Annual Report and Financial Statements to ensure that appropriate sectoral requirements have been made prior to submitting for external audit.	**2023/24 update - Closed** Management made significant improvements to the presentation of the disclosures within the 2023/24 Annual Report and Financial Statements. Whist updates were still required to ensure full compliance with the guidance, in particular to the Remuneration and Staff Report, overall, the document presented for audit was an improvement from last year.

Issue/risk	Recommendation	Agreed management action/timing
Financial Statements in future years. **Risk:** Disclosures do not comply with the applicable guidance.		On the basis that management have committed to reviewing the disclosures annually, this point has been closed.
PY 2. Fixed asset register We identified instances of inaccurate records within the fixed asset register. This affected different categories of assets. **Risk:** Assets are incorrectly accounted for in future Financial Statements.	The fixed asset register should be reviewed to ensure the data and entries within it remain accurate. This could be carried out alongside incorporating the adjustments arising from the next revaluation as at 31 July 2024, and in advance of next year's audit.	**2023/24 update - Overdue** Our work in 2023/24 identified ongoing issues with the college's accounting for tangible assets together with the accuracy of the asset register. This recommendation remains open. We would encourage the college to consider implementing a new fixed asset register that will provide enhanced functionality and improve the accuracy of record keeping. Exhibit 3

South Lanarkshire College

2023/24 Annual Audit Report

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