West College Scotland

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

December 2024

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Key messages

Financial statements audit

Audit opinion and overview	Our audit opinions on the financial statements are unqualified. The College had reasonable administrative processes in place to prepare the annual accounts and the supporting working papers. Despite significant changes to its finance team, the College delivered financial statements and work papers in accordance with the agreed timetable. The incoming Director of Finance and her deputy have been proactive and provided good support to the audit team. We obtained adequate evidence in relation to the key audit risks identified in our audit plan.
Accounting Policies	The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Key audit findings	**Job evaluation accounting treatment** In previous years, an estimate of the accrued cost of the job evaluation exercise for middle management and support staff was accounted for as a liability in the college's accounts. The related funding from the SFC was treated as accrued income. There was therefore nil net impact on the accounts. During 2023/24, the college was notified that the administration of the funding had been transferred from SFC to Scottish Government. This meant that the funding was no longer ring-fenced and could not be accounted for as accrued income. The original SFC 2023/24 Accounts Direction also required colleges to treat the cost as a 'contingent liability', rather than an actual liability. Azets and other auditors across the sector questioned this treatment of the cost as it appeared contrary to accounting standards.

Key audit findings	As a result, the SFC prepared a revised Accounts Direction requiring the cost to continue to be recognised as a liability, but the accrued income to be derecognised. The College followed that guidance and revised its accounts accordingly. The impact of derecognising the funding for the job evaluation exercise has been to increase the deficit for the year by £5.5 million. A similar impact will have been reflected in most if not all Scottish college accounts. **Estate maintenance expenditure classification** In previous years, colleges had more flexibility on how they applied capital funding for estates maintenance in the SFC annual allocation. The College has previously relied on this funding and used it to fund revenue costs of maintaining the assets. This was consistent with the accounting standard where spend on maintenance is typically classified as revenue and not capital as it maintains rather than increases the value of property. In the 2023/24 grant letter, the SFC clarified that this funding could only be used for capital purposes and not for revenue purposes. This guidance introduces uncertainty on the correct accounting treatment of the spend funded by this grant. The impact on the 2023/24 financial statements was not material, however there is a risk of a material impact on the 2024/25 financial statements.
Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We noted the following adjustments during our work: One audit adjustment has been identified in respect of revising the accounting treatment for job evaluation in line with the revised Accounts Direction. One unadjusted misstatement in relation to asset valuations was identified within the accounts which is individually immaterial. We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements. Details of the adjusted and unadjusted misstatements and disclosure and presentational adjustments are noted at Appendix 2.

Accounting systems and internal controls	We applied a risk-based methodology to the audit. This approach required us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identified any control weaknesses, we have included them in this report. We identified no significant weaknesses in accounting and internal control systems during our audit.

The wider scope of public audit

Financial Management	Auditor judgement
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	Risks exist to the achievement of operational objectives The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the current levels of budget pressure, inflation (particularly in relation to utilities) and related funding levels from SFC. The College reported an adjusted operating surplus of £0.055 million for the year. This is a slight improvement on the budgeted surplus of £0.031million and was achieved mainly through the voluntary severance scheme and staff cost efficiencies. The accounts also report increasing cash balances of £13.801 million at 31 July 2024 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

Financial Sustainability	Auditor judgement
Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	Notable risks exist relating to ongoing financial pressures and the income/funding position. Financial sustainability and the achievement of operational objectives is at risk.
	The College is forecasting operating deficits over the next three-year period in the region of a cumulative £11million. This could increase to £16 million due to new limitations on the use of estates maintenance funding. There remain a number of material forecasting uncertainties in relation to staff pay awards (including uncertainty over funding of the job evaluation exercise for middle management and support staff), inflation and sector wide issues which contribute to increased financial risk. The reduced funding settlement notified from the Scottish Government will require a significant savings programme to be implemented, and the College forecasts that this may result in a reduction of up to 27% of its workforce over the next three years. The scale of these reductions challenge the sustainability of the College's current operating model and may require further review and rationalisation of education provision (which may then have a consequential effect on future funding levels). The impact of reductions in expenditure on the student experience and on outcomes for students have yet to be fully determined, and even then may only be projected as the actual impact will be hard to foresee precisely. We recommend that the quality of the financial reporting to the Board could be improved to include scenario planning and a description of key assumptions used. In terms of capital position, the College is working on establishing the detail behind its capital plan beyond one year to provide the stakeholders with detailed capital and maintenance needs to support its bid for longer term capital funding.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place
	The College has a clear vision and a Corporate Strategy in place to support it, with the latter currently reviewed as part of periodic review and refresh. Governance arrangements at the College were found to be good, with clear scrutiny and challenge and good board and committee structures/record keeping. This was confirmed by the external review of the Board effectiveness in the year and Internal Audit's review of corporate governance. Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Use of Resources to Improve Outcomes	Auditor judgement
Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	Risks exist to achievement of operational objectives 2023/24 was another challenging year, and the College managed to achieve its credit target for the first time in the last three years. The adjusted surplus declined when compared to the last year, and the current ratio has also declined. At the same time the College maintains good levels of student satisfaction and percentage of students achieving recognised qualifications. Sickness absence fluctuates around the 4% target and staff turnover has decreased significantly. The Board has appropriate performance management processes in place that support monitoring and scrutinising performance, however a continuous improvement opportunity exists for more detail to be provided at this level on the reasons behind student-related performance changes.

Definitions

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

- There is a fundamental absence or failure of arrangements
- There is no evidence to support necessary improvement
- Substantial unmitigated risks affect achievement of corporate objectives.

- Arrangements are inadequate or ineffective
- Pace and depth of improvement is slow / needs to extend further
- Significant unmitigated risks affect the achievement of corporate objectives

- No major weaknesses in arrangements but scope for improvement exists
- Pace and depth of improvement are adequate
- Risks exist to the achievement of operational objectives

- Effective and appropriate arrangements are in place
- Pace and depth of improvement are effective
- Risks to the achievement of objectives are managed

Introduction

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

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

Responsibilities

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

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

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

Auditor independence

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

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

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

Adding value

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

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

Openness and transparency

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

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing.	The annual report and accounts was considered by the Audit & Risk Committee on 19 November 2024 and approved by the Board on 9 December 2024. Our independent auditor's report is unqualified in all regards.
Going concern basis of accounting	When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise the College's functions.	We reviewed the financial forecasts for 2024/25. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.
Regularity of income and expenditure	We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.	We did not identify any instances of irregular activity.
Opinions prescribed by the Auditor General for Scotland: • The audited part of the Remuneration	We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that:

Opinion	Basis for opinion	Conclusions
and Staff Report • Performance Report • Governance Statement	with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.	• The audited parts of the Remuneration and Staff Report have been properly prepared. • The information given in the performance report is consistent with the financial statements and has been properly prepared. • The information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through our audit.
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective.	We have no matters to report.

An overview of the scope of our audit

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

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

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

Quality indicators

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

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Quality and timeliness of draft financial statements	Mature	Draft Excel financial statements were received on date agreed. A PDF version was received when requested shortly after.
Quality of working papers provided and adherence to timetable	Developing	The work papers were provided before we have started the audit. Fixed Asset Register workpaper, and reconciliations were not easy to follow and the trial balances provided required additional time from the audit team and their quality could be improved.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Timing and quality of key accounting judgements	Mature	The audit team and College's finance team liaised early on the key judgements required for the financial statements preparation.
Access to finance team and other key personnel	Mature	Finance team were available throughout audit and responded quickly to queries raised by audit team.
Quality and timeliness of the audited part of the Remuneration and Staff Report, Performance Report, Governance Statement. As well as the quality and timeliness of supporting working papers for those statements.	Mature	Annual report and all supporting workpapers were received in a timely manner by the date agreed. Their quality was good.
Volume and magnitude of identified errors	Mature	Minimal errors have been identified from work performed.

Significant risk areas and key audit matters

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

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

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

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

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

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Yes	Assess design & implementation	Low	Work is complete. No indication of management override of controls was identified.
Fraud in revenue recognition	Yes	Assess design & implementation	Low	We have gained reasonable assurance on the accuracy and occurrence of income and we are satisfied that it is fairly stated in the financial statements.
Fraud in non-pay expenditure recognition	Yes	Assess design & implementation	Low	We gained reasonable assurance over the completeness of expenditure and are satisfied that expenditure is fairly stated in

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
				the financial statements.
Valuation of land and buildings	No	Assess design & implementation	High	We gained reasonable assurance over valuation of land and buildings.
Pension asset / liability	No	Assess design & implementation	High	We gained reasonable assurance over valuation of the pension asset and liability.

Significant risks at the financial statement level

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

Risk area	Management override of controls
Significant risk description	Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

Risk area	Management override of controls
	Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Very High
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. **Audit procedures** • Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals. • Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the College's journals policy. • Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	Our work in this area is complete. We did not identify any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.

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

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

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

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

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

Key risk area	Valuation of land and buildings (key accounting estimate)
Significant risk description	The College held land and buildings with a net book value of £124.5 million at 31 July 2024, with full external valuations undertaken that year, and an external desktop valuation undertaken as at 31 July 2024. There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the College's asset base represents an increased risk of misstatement in the financial statements.
How the scope of our audit responded to the significant risk	**Key judgements** Colleges are required to ensure fixed assets are held at a carrying amount that does not differ materially from the current value at 31 July, alongside appropriate additional disclosures. **Audit procedures** • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Considered the basis on which the valuation was completed and challenged the key assumptions applied. • Tested the information used by the valuer to ensure it is complete and consistent with our understanding. If there had been any specific changes to the assets in the year, we ensured these have been communicated to the valuer. • For unusual or unexpected valuation movements, tested the information used by the valuer to ensure it is complete and consistent with our understanding. • Ensured revaluations made during the year had been input correctly to the fixed asset register and

Key risk area	**Valuation of land and buildings (key accounting estimate)**
	the accounting treatment within the financial statements is correct.
Key observations	We have gained reasonable assurance over valuation of land and buildings. We identified one isolated error where an asset has not been revalued, but due to the value being immaterial (£0.140 million) the College has decided not to adjust for this. We reviewed the remaining full population and we are satisfied that all relevant land and buildings were subject to the valuation exercise.

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

Key risk area	**Pension asset / liability (key accounting estimate)**
	• Considered the competence, capability, and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence. Evaluated whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements.
Key observations	We have gained reasonable assurance over valuation of pension asset and liability.

Materiality

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

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

Our initial assessment of materiality for the College's financial statements was £1.280 million. On receipt of the 2023/24 unaudited annual accounts, we reassessed materiality and kept it unchanged. We consider that our updated assessment has remained appropriate throughout our audit.

	College **£**
Overall materiality for the financial statements	1,280,000
Performance materiality (75% of materiality)	960,000
Trivial threshold	64,000

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

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

Audit differences

One audit adjustment has been identified in respect of revising the accounting treatment for job evaluation in line with the revised Accounts Direction.

One unadjusted misstatement in relation to asset valuations was identified within the accounts which is individually immaterial.

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

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. We have not identified any significant control weaknesses.

Other communications

Other areas of focus

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

Area of focus	Audit findings and conclusion
	evidence that the accrued cost of the job evaluation exercise was so uncertain that it should no longer be considered a liability. The guidance and rationale within the Accounts Direction were also contradictory and unclear. The matter was raised by the SFC with Scottish Government to seek further clarification on the treatment and classification of the job evaluation cost and related income. Following this, the SFC revised its original Accounts Direction, requiring colleges to: • continue to recognise the liability, as a provision; • derecognise any related accrued income; • potentially process these changes as prior year adjustments [this implied there was a material error in the prior year accounts as the change in administration of the funding from SFC to SG occurred during 2022/23 and should therefore have been reflected in the 2022/23 accounts]; and • include the reversal of income as a reconciling item in the Adjusted Operating Profit table in the Performance Report. The College has updated the accounts to recognise the liability as a provision, derecognise the accrued income and include the impact in the Adjusted Operating Position disclosure. The impact of derecognising the accrued income has been to increase the deficit for the year by £5.5 million. The College has not processed these changes as prior year adjustments as the College has interpreted the guidance in the Accounts Direction to apply only where the College was aware of the change in administration of the funding prior to approving the 2022/23 accounts. The College was not notified of this change until March 2024 and has therefore taken the view that there was no

Area of focus	Audit findings and conclusion
	material error in the 2022/23 accounts and a prior year adjustment is therefore not appropriate. We agree with this view and it is consistent with auditor guidance issued last week by Audit Scotland. **Estate maintenance expenditure treatment** In previous years, Colleges had more flexibility on how they applied capital funding. The College has previously relied on this funding for estates maintenance, which is a revenue cost as it maintains rather than increases the value of property. In the 2023/24 capital grant letter, the SFC clarified that this funding could only be used for capital purposes (to create assets) and not for revenue purposes (as income). This will put significant additional pressure on the College's financial sustainability. As a result, the College is continuing to use the funding for maintenance purposes. As this is not in accordance with the SFC guidance, the expenditure is potentially 'irregular', as the funding is not being applied to the purposes for which it was provided. The funding allocation for this cost runs from April to March, meaning that only spend between April and July 2024 has been included in the 2023/24 accounts and this was not material to these accounts. Our conclusion is that, due to the spend not being material in 2023/24, this does not represent a material 'regularity' breach. However, if SFC guidance is to be maintained in future years, the impact will likely become material and we will therefore revisit the above judgement in 2024/25. We raised this matter with Audit Scotland and SFC and they are liaising with the Scottish Government to allow a technical transfer between capital and revenue at the Spring Budget Revision, which would allow SFC to pass down this flexibility to the Colleges.

Area of focus	Audit findings and conclusion
Prior year adjustments identified.	None identified.
Concerns identified in the following: • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target	None identified.

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year with the exception of the job evaluation treatment.

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

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

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

Key judgements and estimates

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

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

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

Fraud and suspected fraud

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

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

Non-compliance with laws and regulations

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

Written representations

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

Related parties

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

Confirmations from third parties

All requested third party confirmations have been received.

The wider scope of public audit

	Auditor judgement Risks exist to the achievement of operational objectives
Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the current levels of budget pressure, inflation (particularly in relation to utilities) and related funding levels from SFC. The College reported an adjusted operating surplus of £0.055 million for the year. This is a slight improvement on the budgeted surplus of £0.031million and was achieved mainly through the voluntary severance scheme and staff cost efficiencies. The accounts also report increasing cash balances of £13.801 million at 31 July 2024 and the College has sufficient cash reserves to meet liabilities for the foreseeable future.

Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	**Auditor judgement** Notable risks exist relating to ongoing financial pressures and the income/funding position. Financial sustainability and the achievement of operational objectives is at risk. The College is forecasting operating deficits over the next three-year period in the region of a cumulative £11million. This could increase to £16 million due to new limitations on the use of estates maintenance funding. There remain a number of material forecasting uncertainties in relation to staff pay awards (including uncertainty over funding of the job evaluation exercise for middle management and support staff), inflation and sector wide issues which contribute to increased financial risk. The reduced funding settlement notified from the Scottish Government will require a significant savings programme to be implemented, and the College forecasts that this may result in a reduction of up to 27% of its workforce over the next three years. The scale of these reductions challenge the sustainability of the College's current operating model and may require further review and rationalisation of education provision (which may then have a consequential effect on future funding levels). The impact of reductions in expenditure on the student experience and on outcomes for students have yet to be fully determined, and even then may only be projected as the actual impact will be hard to foresee precisely. We recommend that the quality of the financial reporting to the Board could be improved to include scenario planning and key assumptions used. In terms of capital position, the College is working on establishing the detail behind its capital plan beyond one year to provide the stakeholders with detailed capital and maintenance needs to support its bid for longer term capital funding.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place The College has a clear vision and a Corporate Strategy in place to support it, with the latter currently reviewed as part of periodic review and refresh. Governance arrangements at the College were found to be good, with clear scrutiny and challenge and good board and committee structures/record keeping. This was confirmed by the external review of the Board effectiveness in the year and Internal Audit's review of corporate governance. Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** Risks exist to the achievement of operational objectives 2023/24 was another challenging year, and the College managed to achieve its credit target for the first time in the last three years. The adjusted surplus declined when compared to the last year, and the current ratio has also declined. At the same time the College maintains good levels of student satisfaction and percentage of students achieving recognised qualifications. Sickness absence fluctuates around the 4% target and staff turnover has decreased significantly. The Board has appropriate performance management processes in place that support monitoring and scrutinising performance, however a continuous improvement opportunity exists for more detail to be provided at this level on the reasons behind student-related performance changes.

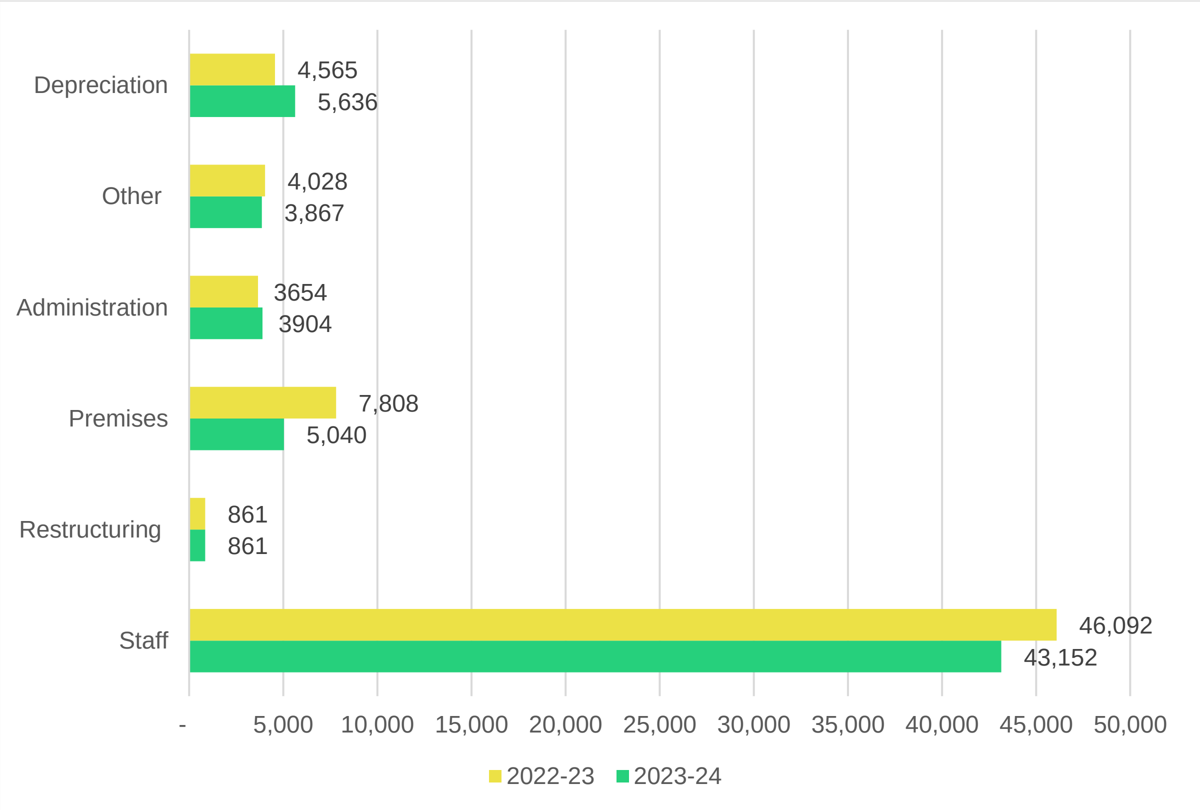
Financial management

Financial performance 2023/24

The College has reported an operating deficit of £4.0 million for the year ended 31 July 2024. After adjusting the operating position for non-cash items that are out with the control of the College - such as pensions and net depreciation - the College has achieved an adjusted surplus of £0.055 million (against budgeted surplus of £0.031 million).

The College's main source of income continues to be grant funding from the SFC (85% of total income in 2023/24). The financial position was achieved during the year partly through delivery of £1.980 million cost savings, largely in relation to staff costs.

Exhibit 1 Key expenditure items 2 years comparison

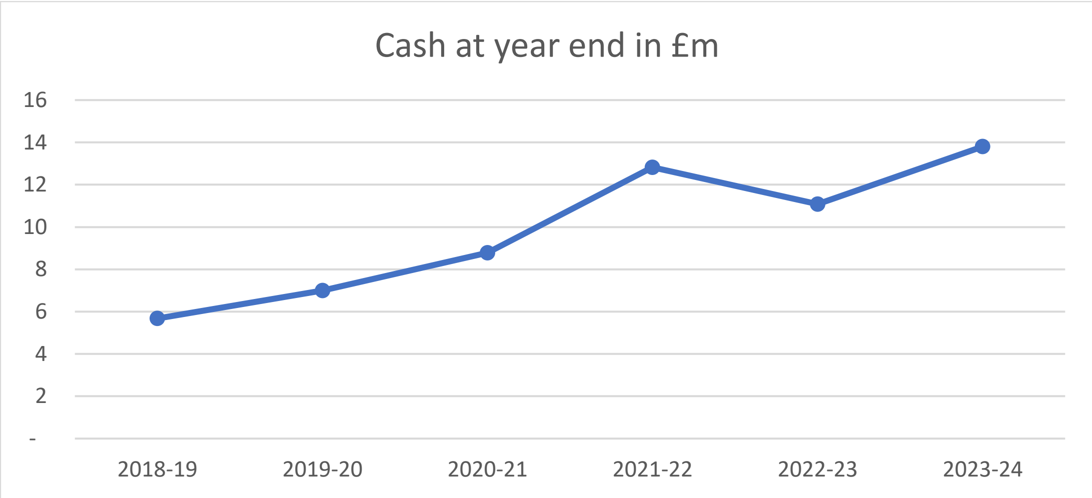


Source: West College Scotland accounts

Staff costs, which now exclude the job evaluation costs, continue to be the highest area of spend for the College, accounting for 69% (69% in 2022/23) of total expenditure. When compared to the previous year these costs decreased by 6% mainly reflecting savings achieved from severance schemes ongoing over the previous and current years. This is a trend we have noted in the last two years.

The cost of voluntary severance in the year was lower than last year at £0.387 million (£0.861million in 2022/23) and 21 members of staff took advantage of the scheme in 2023/24. This represented around 5% of total headcount. The College's voluntary severance programme is expected to continue into future years as the main way to achieve savings in expenditure. We note however that the number of staff leaving through these arrangements is decreasing year on year and the scope for future savings appears to be reducing.

Exhibit 2 Cash position



Source: West College Scotland accounts

The cash balance held by the College was £13.801 million (£11.086 million at 31 March 2023). The College budgeted for c20 days of cash to be maintained, while the current cash position represents 85 days. The College expects this to go down to £1.561 million (or 10 cash days) after the year end due to the timing of the following transactions:

- £0.7 million SFC grant clawbacks for student support underspend;
- £6.5 million of potential liability payments and creditor payments for goods and services received in 2023-24 and to be paid during 2024-25; and
- £5.1 million of estate maintenance project funds carried forward due to the timing of spend.

We note that a similar expectation to reduce the cash position was noted by the College last year, however it did not materialise and the cash position increased at the end of 2023/24. The College is required to minimise cash held, maintaining only what is required for working capital purposes.

Budget Setting

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

The College's Director of Finance is responsible for preparing an annual budget and subsequent two year forecast for approval by the Board of Management, and on the recommendation of the Corporate Development Committee. The budget is aligned with the College's strategy.

The budget preparation process is informed by input from budget holders to ensure meaningful and achievable estimates are agreed.

Capital Expenditure

There has been no significant capital expenditure undertaken during the financial year. The College spent £1.1million on ongoing maintenance of the existing estate, which was less than initially planned due to the focus on the work required on the RAAC-affected asset in Greenock Campus. This asset was assessed by structural engineers during the year and the roof requires replacement in the next 3 years. As a result, £5.1million of the planned works programme has been carried forward to 2024/25 including an expected £2.5 million on phase 1 of fixing the RAAC-affected workshop roof. The total expected cost in relation to this issue is £4.5 million for the roof refurbishment; however, additional works might also be required to walls which also contain RAAC – early estimates show c.£3 million of cost in relation to the walls issue.

Systems of internal control

We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

We consider the system of control in place at the College to be good. Our work has not highlighted any significant weaknesses in this area.

Prevention and detection of fraud and irregularity

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

Regular updates on fraud related matters (including Counter Fraud Services updates and the National Fraud Initiative) are presented to the Audit Committee.

National fraud initiative

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

The most recent NFI exercise commenced in 2022. The College uploaded the data in line with the requirements of the NFI in October 2022 ahead of the new data sets being released in January 2023. The College staff assessed the matches and investigated all of them. Due to identification of duplicate payments the College started a process of recovering £0.015m paid in error. The College has now implemented optical character recognition software which will alleviate the majority of input errors. The findings were presented to the Audit Committee in March 2024.

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

Financial sustainability

Significant audit risk

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

Financial sustainability
The College continues to face significant financial challenges, operating within tight financial parameters, with measures required to be taken to ensure long-term sustainability. In 2023-24 the College achieved a small adjusted operating deficit of £0.055 million, and forecasts further deficits in subsequent years totalling £11.352 million between 2024-2027. This assumes that pay rises will be agreed at a flat rate every year, SFC will fund the impact of the teachers' pension fund employer's contribution increases and that increased utility costs are in line with APUC (Advanced Procurement for Universities and Colleges) assumptions. It also includes an expectation of no other sources of income and no change to the Scottish Government/SFC funding model. The medium term financial forecast was presented to the Board in June, and an update was presented to the October meeting. Staff costs continue to be a significant pressure area and a key element of the College's ambitious savings plan. With the uncertainty around public sector pay settlements, any increase in staff costs will have a material impact on the finances of the College. The most recent pay settlement has seen staff cost increases above 3% for 2025/26, in addition to a £5,000 pay increase across the preceding three academic years. This pay proposal has only been possible because the Scottish Government agreed to provide increased funding from 2025/26 via the SFC allocation. While the College will also have annual savings of c.£1.7 million from the reduced pension contributions over the current and next financial year, after that period these are going to increase again to 17.5%, so the nature of these savings will be short term. Going forward, financial planning will continue to be challenging and delivering savings plans and services in a sustainable manner remains a significant risk.
Our detailed findings on the College's financial framework for achieving long term financial sustainability are set out below.

2024/25 Budget

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

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

The College is heavily reliant on SFC funding which currently represents c.85% of total income. As such, any movement in grant funding impacts directly on the College's financial position.

The SFC published final colleges' funding allocations in May 2024. The 2024/25 SFC main grant allocation for the College is £44.108 million (2% reduction from prior year) and this is to support delivery of 140,450 student credits, which is the same as the prior year. Compared to last year, other government funding sources will not be available in 2024/25, equating to c.£0.330 million reduction in funding.

The College prepared its budget for 2024/25 based on the SFC allocations and detailed forecasts available at the time with a view of creating a revised delivery model that will reflect the funding available. The key budget assumptions include:

- achievement of 100% of the allocated student credits target (the 2023/24 target was met);
- pay uplifts equivalent to the current offer made to all staff;
- there will be teaching staff employers' pension contribution increases expected to be covered by the SFC via Scottish Government Barnett consequentials; some short term savings on the staff members of the Strathclyde Pension Fund are expected over the next two years, equating to £1.300 million per annum;
- no additional cost of voluntary severance has been included in the budget, and any such cases are expected to be self-financing;
- cost reductions of £0.900 million are assumed in other non-staff related costs, including reactive maintenance, IT projects, marketing and recruitment cost.

The budget is estimating a £3.0 million deficit and the initial savings plan presented to the Board in October 2024 focuses on the following activities:

- Staff efficiencies of £0.870 million;

- Staff turnover savings £0.500 million;
- £1.7million of the capital budget will be flexibly used between revenue and capital. As noted earlier in this report, this is at risk because use of capital funding for revenue purposes is no longer permitted

The College plans to manage savings and budget through close monitoring, monthly meetings between the finance director and budget holders, quantifying amounts in the risk and opportunities register to identify any further savings.

Medium Term Financial Plan

The College presented its financial forecast for 2024-27 alongside its 2024-25 budget to the June 2024 Board meeting. The College estimates three years of deficits adding up to a total of £11.352 million between 2024-2027.

Exhibit 3

	2024-25 £'m	2025-26 £'m	2026-27 £'m	Total £'m
Savings required	1.360	3.683	6.309	11.352

Source: West College Scotland Financial Forecast

At the time the above forecasts were submitted to the Scottish Funding Council, the College still had flexibility in use of capital maintenance funding between capital and revenue spend. This flexibility was subsequently removed, and this is still subject to discussion between Colleges, the SFC and the SG. If the College is not able to release this funding to revenue, it will require to identify c£1.7 million in additional savings each year, which would increase the total savings needed over the next three years to £16.452 million.

These estimates are based on assumptions that the pay rises will be agreed at flat rate every year, SFC will fund the impact of the teachers' pension fund employers contributions increases (from 23% to 26%), and that increased utility costs are in line with APUC (Advanced Procurement for Universities and Colleges) estimates. It also includes an expectation of no other sources of income and no change to the Scottish Government/SFC funding model.

The pay rises for support and teaching staff for 2025/26 have now been agreed and represent 3% and 4.14% increases respectively, although we understand it is likely that support staff will request their increase to be equal to that of the teaching staff. These are in addition to a £5,000 pay increase across the preceding three academic years. This pay proposal has only been possible because the Scottish Government agreed to provide increased funding from 2025/26 via funding coming from the SFC allocation.

Savings of c. £2.7 million from the reduced Strathclyde Pension Fund contributions, linked to its last triennial valuation results, will be realised over two years to 2025/26, after which the employer contributions will go up again from 6.5% to 17.5%, making this saving opportunity a short term one.

There is also uncertainty over funding for the costs of the job evaluation exercise for middle management and support staff, which is currently estimated at £5.5m.

The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2025-26 and in every subsequent year thereafter. Management is currently revising its Transformation Plan to provide a wide selection of options to the Board. These include, but are not limited to, sale of land, reduction of maintenance cost, continuing with voluntary scheme, further digitalisation, changes in governance. Management are aware that some of those solutions (like voluntary severance) may be no longer feasible within the existing curriculum and delivery model. Once the options are selected by the Board, the College is planning to work on quantifying the expected cost/savings.

We note that the financial forecast is in development and could be further improved through consideration of different scenarios and by ensuring that the main assumptions used in the forecast for future years are included in the reports going to the Board for approval.

R**ecommendation 1**

Impact on education provision

Due to the above financial constraints, the College must identify savings, with staff costs accounting for the significant majority of College spend. A 1% change in workforce equates to c.£0.450 million increase/decrease in cost.

In the previous four years, the College generated savings through the voluntary severance scheme and decreased its workforce by 12% (or 137 staff) with 2020/21 used as a base year. At the time the financial forecast was presented, the College considered savings that would result in a cumulative reduction in staffing levels of 20% across 2024-2027. This equates to 197 full time equivalent staff.

Exhibit 4 Staff plans

	2024-25 FTE	2025-26 FTE	2026-27 FTE
Voluntary severance	17	64	116
Cost reduction	£0.8m	£3.2m	£5.8m

Source: Financial Forecast Return June 2024

Further significant reductions in staff levels would likely mean that the current College's operating model would not be sustainable, with a consequent impact on the volume of activity undertaken and the methods of teaching delivery. Any change will likely have consequences for the student experience and the quality of education delivery and outcomes.

A reduction in staffing levels may also impact the ability of the College to achieve its annual credit target and other national objectives, therefore having a knock-on effect on future financial and non-financial performance.

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

The College has in place a high-level People Strategy 2022-30. We note this document analyses the key issues faced and structure of the workforce and the College is developing further detail as to possible actions and scenarios.

Capital plans - estates

The College has an Estates Strategy 2016-26 to address emerging and future needs. The College maintains three campuses and its 2019 condition survey had the following findings:

- a need to invest £42million over the next 5 years to bring the estate buildings to a suitable standard;
- £153million will be required over the next 20 years to maintain the current estate in suitable conditions;
- the Greenock campus requires a high priority investment with expenditure of £21m being necessary over a 5-year period to ensure the buildings are in the condition expected of a modern teaching and working environment. The college is awaiting SFC response to its Outline Business Case submitted in 2021-22;
- similarly, the Paisley campus is requiring significant expenditure of £17million; and
- the Clydebank campus will require £5million investments over the next 5 years to maintain it.
- The current projects included a number of roofs renovations, Oakshaw relocation, Clydebank workshop redesign and Paisley café and Leaner Development space refurbishment.

In 2024 Ryden carried out an updated priority survey across the College estate. This feeds into the maintenance programme for the short to medium term period to focus the efforts on the key needs of the estate.

The delivery of the Estate Strategy is overseen by the Vice Principal Operations and supported by the Estates Management Team with the Corporate Development Committee oversight and reporting to the Board. This allows appropriate governance arrangements, although we note that the Vice Principal Operations left the College during the year. The College is reviewing its Corporate Strategy, expected to be finalised in December 2024 which will then be followed by an update to the Estate Strategy which is scheduled to be completed in early in 2025.

The surveys indicate a significant gap in capital funding available to meet the needs of the estate. College staff are part of a working group looking at the Education sector estate assessment across Scotland. It is expected this assessment will help to determine the whole sector capital needs, similar to what was performed for schools in local government. This exercise is led by the SFC which prepares a College Infrastructure Strategy to assess and prioritise needs across the sector. WCS provided this information to the SFC, based on the 2024 Ryden survey, and finalisation of this assessment by the SFC is expected by the end of 2024.

Vision, leadership and governance

Vision and leadership

The College has a number of strategies in place with the Corporate Strategy 2019-25 setting out the College's ambitions and priorities across four themes: personalisation, collaboration, agile and adaptive, and digital. The College is reviewing this strategy and targets December 2024 to finalise this review.

Another main document for the College is the Curriculum Strategy 2021-26. This strategy considers student needs, local communities and other stakeholders, and national strategies and priorities, which all are treated as key curriculum drivers. The key aims and priorities refer to four themes set out in the main corporate strategy. The curriculum outlines relevant actions against each of the themes and is reviewed every year to best meet demand and regional skills needs.

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

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

Governance arrangements

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

- Audit Committee;
- Learning, Teaching and Quality Committee;
- Corporate Development Committee;
- Remuneration Committee; and
- Nominations Committee.

The Board was subject to its annual self-evaluation review and an externally facilitated effectiveness review in 2024 as required by the Code of Good Governance for Scotland Colleges. The external review involved assessment through meetings, observations, interviews, surveys and workshops. The results were reported to the Board at the June 2024 meeting. Overall, the assessment praised Board's leadership and skills, arrangements for compliance with the Code of Good Governance for Scotland Colleges, focus on student experience and support given by the Principal and executive team. The review also highlighted the Board's high turnover, the need for more face to face interaction between the Board members, and the need to receive clearer performance information to allow effective scrutiny.

The College's Governance Statement asserts that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the Accounts Direction, and is underpinned by the required audit work we undertake on the governance statement.

Corporate governance arrangements at the College were subject to an Internal Audit review with overall 'strong' , the highest grade. Internal auditors noted a *strong level of assurance surrounding the arrangements in place to comply with the Code of Good Governance and the provision of high-quality management information to facilitate effective decision making by the Board.*

Key Board and senior management team changes

During the year the Board appointed two new non-executive members as part of the normal replacement cycle. The senior management team remained mainly unchanged with the exception of the Vice Principal Operations who is due to be replaced in December 2024.

Internal Audit

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

Internal Audit's annual assurance opinion was provided to the Audit Committee in September 2024. Internal Audit concluded that the College has adequate and effective risk management, control and governance processes to manage achievement of the College's objectives, and that proper arrangements are in place to promote and secure Value for Money.

Standards of conduct

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

Use of resources to improve outcomes

Financial Memorandum

The Financial Memorandum from the SFC requires the Board to:

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

Performance management arrangements

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

In April 2023 the Board approved a newly developed *High Level Key Performance Indicator Report* aimed at bringing together performance indicators reported in various documents and to different stakeholders.

We note that the overarching themes set out in the Corporate Strategy are being aligned with reporting on performance indicators and relevant metrics to measure progress are in development.

Overall activity is managed by the Senior Management Team at fortnightly meetings where student activity targets are monitored along with performance against budget and achievement of planned activities for the year. Financial performance is also monitored quarterly at both the Corporate Development Committee and the Board of Management. The Board of Management is informed of the progress made towards key targets and performance through individual business reports and the Principal's Report.

Performance results

Exhibit 5: Performance results

	KPI (key performance indicators)	*Target 23-24*	Actual 2023-24	Actual 2022-23	Movement
1	Student Activity (total credits)	*140,450*	140,810	152,460	↓
2	Performance against core credit activity target	*100.0%*	100.3%	97.0%	↑
3	% of students overall, satisfied with their college experience	*96%*	92%	95%	↓
4	% of full-time FE enrolled students achieving a recognised qualification	*67%*	67.7%	67.3%	↑
5	Early withdrawal full-time FE	*	6.1%	5.7%	↑
6	% of full-time HE enrolled students achieving a recognised qualification	*69%*	63.8%	59.5%	↑
7	Early withdrawal full-time HE	*	4.6%	6.5%	↓
8	% of credits delivered to students in 10% most deprived postcode areas	*26%*	25%	26%	↓
9	% of credits delivered to care experienced students	*9.0%*	9.1%	9.1%	↑
10	Number of senior phase age pupils studying vocational qualifications	*2,200*	520	2,200	↓
11	Percentage of staff sickness absence	*4.0%*	4.5%	4.0%	↑
12	Percentage of staff turnover	*15.0%*	11.5%	19.2%	↓
13	Adjusted operating surplus/(deficit)	*£31,000*	£55,000	£400,000	↓
14	Free cash days at year end	*5*	10	10	↑
15	Current assets: current liabilities	*0.89*	0.99	0.99	↑
16	Staff costs as a % of total cost	*81.1%*	79.7%	82.6%	↓
17	Percentage of non-SFC income	*13.6%*	14.1%	13.6%	↑

Source: 2023/24 draft annual report and accounts

The College's performance against key performance indicators for academic year 2024 shows that the College has exceeded the student credit target which is a change from the previous two years when the targets were not met. The College delivered 140,810 credits against its target of 140,450 as set by the SFC for academic year 2023/24.

On the other measures:

- the non-SFC income increased compared to prior year and as a percentage of total income;
- sickness absence increased slightly above the target to 4.5%, while staff turnover decreased significantly from 19.2% to 11.5% and well below the target of 15%. The staff turnover can be linked to the severance scheme in place.
- the current ratio (ability to pay its current debts) decreased to 0.89.
- students satisfaction levels decreased but remained above 90% mark.

The College also reports on a number of measures relating to student outcomes, including successful qualification completion and partial success of withdrawals. The performance against those measures is considered regularly at the Learning, Teaching and Quality Committee meetings, with detailed performance reports being presented.

Similar to previous year we note that the College has a set of reports to consider the detail of the performance at a committee level, but its reporting in the annual report and accounts is largely limited to student credit targets and financial measures, and it does not provide additional commentary measures that are key to students (for example on student satisfaction levels or students achieving a recognised qualification). Providing more information on the above to the Board and readers of the accounts has also been limited and may allow for more scrutiny and informed decision making.

Appendices

Appendix 1: Responsibilities of the College and Auditors

Responsibilities of the College

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

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

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

Auditor responsibilities

Code of Audit Practice

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

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

Our responsibilities

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

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

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

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

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

Financial management

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

Auditor considerations

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

Financial sustainability

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

Auditor considerations

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

Vision, leadership and governance

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

Auditor considerations

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

Use of resources to improve outcomes

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

Auditor considerations

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

Best Value

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

Audit quality

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

Audit Scotland maintains and delivers an Audit Quality Framework.

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

Independence

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

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. In particular:

Non-audit services: Azets does not provide non audit services to the College.

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

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

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

Audit services

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

	2023/24	2022/23
Auditor remuneration	53,920	50,870
Pooled costs	(5,750)	(7,460)
Audit support costs	0	1,310
Sectoral cap adjustment	5,010	5,440
Total audit fee	**53,180**	**50,160**

Appendix 2: Audit differences identified during the audit

We are required to inform the College of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit.

Adjusted misstatements

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

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SoCNE Dr / (Cr) £'000
1.	Recognition of job evaluation cost as a provision		Provisions- (5.531)		Job evaluation cost 5.531
	Net impact on (income)/expenditure				5.531
	Net impact on net assets				(5.531)

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

Unadjusted misstatements

We identified one exception during our audit which have remained uncorrected by management, as detailed below:

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SoCNE Dr / (Cr) £'000
1.	Revaluation of leased out asset not processed	Fixed Assets 0.150		Revaluation Reserve (0.150)	
	Net impact on (income)/expenditure				Nil
	Net impact on net assets				Nil

The above asset is leased out to third parties and therefore its classification as a property, plant and equipment will need reassessment. Due to immaterial value of the asset we agreed that the College will perform this exercise during 2024/25 financial year.

Misclassification and disclosure changes

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

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

No	Detail
1.	Changes were required to the pensions note to separate the unfunded liability from the asset ceiling calculation.
2.	A number of smaller presentational issues were identified in performance report and accountability report.
3.	A revision to the disclosure was required in the fixed assets note to clarify the treatment of post-revaluation depreciation movements.

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

Appendix 3: Action plan

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

The recommendations are categorised into three risk ratings:

Key:

1. Significant deficiency

2. Other deficiency

3. Other observation

1. Financial forecast reports and assumptions (Other observation)	
Observation	We note that the financial forecast is in development and could be further improved by presentation of different scenarios and by ensuring that the main assumptions used in the forecast for future years are included in the reports going to the Board for approval.
Implication	There is a risk the Board is not considering or key factors impacting on future financial plans.
Recommendation	We recommend the reports going to the Board contain all significant information/scenario planning analysis to enable effective decision making.
Management response	**Response:** Management will ensure that all main assumptions used in the forecast for future years are included in the reports going to the Board for approval going forward. **Responsible officer:** Director of Finance and Estates **Implementation date:** Financial year 2024-25 onwards

Appendix 4: Follow up of prior year recommendations

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

1. Accounts preparation	
Recommendation	In 2023 we recommended that a full set of annual report and accounts is provided for audit on the first day of the audit or before.
Implementation date	September 2024
Complete	The 2023/24 financial statements were received on time and complete.

2. IT general controls	
Recommendation	Our specialist IT team reviewed design and implementation of IT general controls in the key systems impacting preparation of the financial statements and identified a number of areas for improvement in relation to password and access management, and change management covering low and matters and one of moderate nature. (As this is a public report and for reasons of IT/control sensitivity, we have provided specific detail to the College separately). We recommended that the specific IT points identified are addressed.
Implementation date	31 December 2024
Ongoing	Management will review the IT points and address.

3. Capital plan	
Recommendation	Capital expenditure plans are based on SFC allocations and the College's 2019 condition survey. The capital plans prepared by the College in effect are short term and focus on maintenance of the estate. We would expect the College has capital plans beyond one year to manage its asset base over the long term and to provide a wider and more strategic approach to this area. We recognise that capital funding is not under direct control of the College. We have also seen detailed considerations for a number of projects planned or ongoing at the College estate. At the same time we encourage the College to develop and refine their capital plan to help manage its estate and support the College in its discussions with the funding providers on capital investment priorities. This could be used to help overtly demonstrate to all key stakeholders assessed funding challenges/gaps, including how achievement of strategic plans may be impacted depending on funding available.
Implementation date (updated)	Early 2025
Ongoing	An updated Capital Strategy is scheduled for completion early 2025 following the approval of the updated Corporate Strategy.

4. Performance indicators	
Recommendation	While the College has a set of reports to consider the detail of the performance at a committee level, its reporting in the annual report and accounts is largely limited to student credit targets and financial measures, and it does not provide additional commentary measures that are key to students (for example on student satisfaction levels or students achieving a recognised qualification). Providing more information on the above to the Board and readers of the accounts has also been limited and may allow for more scrutiny and informed decision making. The users of the accounts and Board members might not be able to make informed decisions due to insufficient detail provided. We recommend the reporting is enhanced to provide additional detail on student and other key issues performance, allowing the decision makers and other key stakeholders a better understanding of the College's affairs.
Implementation date (updated)	2025 onwards
Ongoing	Management is currently assessing the College's KPI's in line with the updated Corporate Strategy and as part of the operational planning for 2025 onwards. The College fully intends to enhance and expand the performance indicators reported in future reporting.