West College Scotland

2022/23 Annual Audit Report to the Board and the Auditor General for Scotland

December 2023

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Key messages

This report concludes our audit of West College Scotland for 2022/2023.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	Our independent auditor's report includes: • an unqualified opinion on the financial statements; • an unqualified opinion on regularity; and • an unqualified opinion on other prescribed matters.
Key audit findings	We have reported our audit findings on pages 11-24. We have obtained adequate evidence in relation to the key audit risks identified in our audit plan. The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We have identified one material adjustment to the financial statements. This was for £1.8million and relates to the incorrect impairment of the Reinforced autoclaved aerated concrete (RAAC) affected asset. It resulted from ongoing discussion between auditors, the College and Ryden and in response to emerging RAAC issue which became public just before the audit started. We identified a small number of disclosure amendments which we list in Appendix 2. These have been reflected in the finalised financial statements. We also identified one immaterial unadjusted misstatement in prior year figures, and therefore not requiring an adjustment.

Accounting systems and internal controls	We have applied our risk based methodology to your audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.

Wider scope audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** No major weaknesses in arrangements but scope for improvement exists The College is has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the COVID-19 pandemic, current levels of inflation (particularly in relation to utilities) and related public sector funding levels/extent of increases. The College reported an adjusted operating surplus of £0.400 million for the year. This is an improvement on the budgeted deficit of £1.400million and was achieved mainly through the voluntary severance scheme and staff cost efficiencies. The accounts also report cash balances of £11.080 million at 31 July 2023 and the College has sufficient cash reserves to meet liabilities for the foreseeable future. We have made a recommendation to the College to improve its IT controls in relation to the key financial systems.

	Auditor judgement Notable risks exist relating to ongoing financial pressures and given the income/funding position. This is of notable risk to optimising successful financial sustainability and to the achievement of operational objectives.
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services and the way in which they should be delivered.	The financial position of the College is challenging as it is forecasting operating deficits over the next five-year period in the region of a cumulative £16million. There remain a number of forecasting uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty. The flat cash funding settlement outcome as 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 22% 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 for the student experience and on measures of positive 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 exactly. In terms of capital position, the College should establish 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. 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** No major weaknesses in arrangements but scope for improvement exists 2022/23 was another challenging year, with financial and liquidity indicators improving, but performance in relation to Credit targets and successful outcomes for students declining. The College under delivered its Credit target by 3%, however it is noted that this is in context of the pandemic impact on students, industrial action and general economic environment. Apart from the decline in the adjusted surplus, most of the College's financial performance ratios have improved over the period and the College maintains good and increasing levels of student satisfaction. 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.

Definition

Our wider scope audit involves consideration of the College's arrangements as they relate to financial sustainability, financial management, vision, leadership and governance, and use of resources to improve outcomes. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.

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

Significant unmitigated risks affect achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee at the outset of our audit. The core elements of our work include:

- an audit of the 2022/23 annual report and accounts and related matters;
- consideration of the wider dimensions of public audit work;
- monitoring the college's participation in the National Fraud Initiative; and
- any other work requested by Audit Scotland.

Responsibilities

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

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

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

Auditor independence

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

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

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

Adding value

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

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

Openness and transparency

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

Annual report and accounts audit

The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings / conclusions to inform our opinion are set out in this section of our annual report.	We have issued an unqualified audit opinion on the 2022/23 financial statements.
Going concern basis of accounting	In the public sector, 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. Our wider scope audit work considers the financial sustainability of the College.	We reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date. In our going concern assessment, we take cognisance of matters relevant to public sector bodies. Our audit opinion is unqualified in this respect.
Opinions prescribed by the	We read all the financial and non-financial information in the annual report and accounts to	The annual report contains no material misstatements or

Opinion	Basis for opinion	Conclusions
Auditor General for Scotland on: • Performance Report and Governance Statement • Remuneration and Staff Report	identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.	inconsistencies with the financial statements. We have concluded that: • the information given in the Performance Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; • the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited part of the remuneration report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Audit Committee in May 2023. 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. 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.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

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 were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider 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 accounts as a whole, and not to express an opinion on individual accounts or disclosures.

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

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	In any organisation there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with *ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.* This was considered to be a significant risk and Key Audit Matter for the audit.
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 the College's controls for specific transactions. **Audit procedures** • Review the College's accounting records and audit testing on transactions. • Adopt data analytics techniques in testing carried out. • Test high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness,

Risk area	Management override of controls
	corroboration and to ensure approval has been undertaken in line with the College's journals policy. • Review judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.
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 College could adopt accounting policies or recognise income transactions in such a way as to lead to a material misstatement in the reported financial position. This was considered to be a significant risk and Key Audit Matter for the audit.

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. However, we do not deem this risk to be present for revenue resource allocations from the Scottish Funding Council due to a lack of incentive and opportunity to manipulate transactions. **Audit procedures** • Evaluate the significant revenue streams and review the controls in place over accounting for revenue. • Consider the College's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and that the policies have been applied consistently across the year. • Test a sample of income items.
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**
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end. **Audit procedures** • Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. • Consider College's key areas of expenditure and obtain evidence that expenditure is recorded in line with

Key risk area	Fraud in non-pay expenditure
	appropriate accounting policies and the policies have been applied consistently across the year. • Review accruals around the year end to consider if there is any indication of understatement of balances held. Consider accounting estimates. • Test a sample of expenditure items.
Key observations	We have gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Key risk area	Pension Assumptions
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 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 date 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. There is a risk that the assumptions used are not appropriate. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgements** Given that small movements in the underlaying assumptions may translate into significant changes of the pension liability we deem this area to be subject to a high risk of misstatement. **Audit procedures** • Review the controls in place to ensure that the data provided from the pension fund is complete and accurate.

Key risk area	Pension Assumptions
	• Review the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data. • Agree the disclosures in the financial statements to information provided by the actuary. • Consider completeness and accuracy of the information provided by the College to the actuary. • Ensure that we can rely on actuary's work as an expert by obtaining sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.
Key observations	The actuarial report for the College identifies a pension surplus (or pension asset) of £33.9 million. This is a significant change to the prior year's pension asset of £15.6 million and is mainly driven by a significant increase in discount rate assumption between the years. The discount rate as of 31 July 2023 has been 5.05% and decreases the value of future pension obligations substantially which, when combined with no significant movement in the value of pension investments, results in a pension surplus outcome. Accounting standards require the College to review the pension surplus and only recognise the lower of the surplus or an 'asset ceiling'. A detailed technical guidance note on how to calculate the pension asset ceiling was issued by Audit Scotland early in July 2023. We have discussed this matter before the audit commenced with the College and management processed these changes in the accounts which were then presented for the audit. In effect, this has limited the recorded pension asset to the asset ceiling value of £0.133 million in 2022/23. The prior year figure has been adjusted by the College by £15.649 million and reduced the pension asset to Nil value. (We noted an unadjusted immaterial difference as a result, as the actual asset cap value for prior year has been calculated at £0.145million rather than Nil. The unadjusted difference relates to the College opting to use Nil value). After considering a range of factors and consulting with the actuary and other stakeholders, the College used future working life in calculating the asset cap value. Another option was to use perpetuity and the actuary states that

Key risk area	Pension Assumptions
	decision is for the College. While Azets is of a technical accounting view that perpetuity is more appropriate in most circumstances, the College can and has put a rationale for using future work life in the notes to the accounts and referred to uncertainty over the asset recovery over a long term period. Had the perpetuity has been used the difference would not have been material for both current and prior year, therefore we do not have any further comment in that matter and do not treat it as a misstatement. This is a view reinforced by our Azets technical team. We have observed a similar circumstances in a number of Education sector entities this year. We have considered the actuarial assumptions and the Financial Reporting Standard 102 guidance in relation to asset recognition and presentation in the financial statements.

Key risk area	Estates Valuation
Significant risk description	The College holds a significant estate, with net book value of land and buildings of £123 million as at 31 July 2023. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional valuations, with the latest independent valuation completed at 31 July 2023. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates and small changes in estimates have the potential to result in a material change in asset valuation.
How the scope of our audit responded to the significant risk	**Key judgements** There is the potential for management to use their judgement to influence the financial statements. **Audit procedures** • We ensured that assets are recorded in line with the Further Education Statement of Recommended Practice (FE SORP), Accounts Direction and the College's accounting policies, and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed

Key risk area	**Estates Valuation**
	a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of Reinforced Autoclaved Aerated Concrete (RAAC). • Where professional advice has been sought, we considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We considered the College's impairment review and communication with the valuer. In addition, we considered the scope of the valuer's work and the information provided to the valuer for completeness.
Key observations	The total value of the College's land and buildings increased by £22.4 million as a result of the 2023 valuation and it consists of increase in the value of the four campuses' buildings. The value of land has not changed as a result of the valuation. The buildings are of specialised nature and therefore are valued by using a depreciated replacement cost method, which means that it would cost over £119.3 million to replace them as at 31 July 2023. The buildings valuation upward movement is consistent with the inflation impact and linked to BCIS/Tender Price Index representing an overall increase in construction cost. Shortly before the start of the audit the auditor and the College become aware of a potential impact of RAAC assets in public sector. The College - with the help of its valuer (Ryden) - has identified one asset impacted by use of RAAC, specifically that one building had RAAC used in the construction of its roof. The initial treatment was discussed with the auditor and the College updated the accounts for the RAAC impact as suggested by Ryden valuation. The whole building has been impaired to Nil from its net book value of £1.8 million, although it was only the roof subject to RAAC and given other factors supporting continued use. We questioned the College as to why the whole asset has been impaired and whether the valuer can support that view. (We understand the College had also, separately made valuer enquiries on this). After our and College's challenge this has been revisited and only the roof element has been revalued down. A related

Key risk area	Estates Valuation
	accounting issue also resulted in a change of the accounting treatment of the change in value; impairment has been reversed and reduction in value has been included as a part of the in-year valuation movement in the revaluation reserve, as is appropriate for a depreciated replacement cost based valuation. We have gained reasonable assurance over the valuation of estates at the year end and are satisfied that the estate is fairly stated in the financial statements.

Estimates and judgements

We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation rates, provisions for legal obligations, and accruals. We identified two accounting estimates listed below.

Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements	
Present value of retirement obligations	**Auditor judgement: Balanced**
Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2023. The assumptions of the actuary, Hymans Robertson, were overall within our expected range. The assumptions were predominantly in the middle of our expected range. We have discussed with the College the assumptions used in the pension asset ceiling calculation as the asset cap has been calculated by using future working lifetime instead of perpetuity. The College added the rationale for the use of that	

Estimates and judgements
basis of calculation to the accounts and because the difference between both methods is not material we have no further comments in this matter.

Estates valuation	Auditor judgement: Balanced

We ensured that assets are recorded in line with the FE SORP and the College's accounting policies and have been accounted for appropriately. We reviewed the asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This year the College's assets were revalued by a professional valuer Ryden LLP.

We considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). The College performed an impairment review of the assets and did not identify any indication of impairment. The results of our subsequent review of the above evidence is that the estates net book value is not materially misstated.

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 the College and the needs of users. We review 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 to the College and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

College Materiality

We based our initial assessments of materiality levels within our Audit Plan on the information available at that time i.e. prior years audited accounts. For the College's financial statements, the initial materiality was set at £1.130 million. On receipt of 2022/23 unaudited annual accounts, we reassessed materiality and kept it unchanged. We consider that our updated assessment has remained appropriate throughout our audit.

	£
Overall materiality for the financial statements	1,130,000
Performance materiality	850,000
Trivial threshold	57,000

Materiality	Our assessment is made with reference to the College's expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College. Our assessment of materiality equates to approximately 1.7% of the College's expenditure as disclosed in the 2022/23 unaudited annual accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality in this respect is set at £5,000.
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	Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

We have identified one material adjustment as outlined above, with the impact on the Statement of Comprehensive Income and Expenditure and on net assets of £1.801million. We identified one immaterial misstatement in the prior year figures and not requiring a restatement.

We identified some disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

Internal controls

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

We did not identify any significant control weaknesses during our audit, however a number of weaknesses identified in relation to the general IT controls were identified and are included in recommendations.

Audit recommendations

An action plan and our recommendations are included in Appendix 2.

Other communications

Accounts preparation

We received financial statements, subject to finalisation of the pension and valuation adjustments, before start of the audit on 8 September. We received the draft financial statements with those adjustments on the first day of the audit on 13 September. We were made aware by the College that the draft performance report will be provided later and we have received those on day three of the audit, as discussed. In future, we recommend that a full set of annual accounts and report is provided on or before the first day of the audit.

Recommendation 1

Accounting policies, presentation and disclosures

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 annual accounts, are in line with the FE SORP, and are considered appropriate.

We have reviewed the disclosures made as required by relevant legislation and applicable accounting standards and concluded these have been made appropriately.

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

Fraud and suspected fraud

We have previously discussed the risk of fraud with management. 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 Funds. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

We have obtained the signed letter of representation from the Board of Management.

Related parties

The first version of the accounts did not have the relevant disclosures made. The College updated the accounts following our findings.

Confirmations from third parties

We have received all third parties confirmations required for the purpose of our audit.

Wider Scope

Financial management

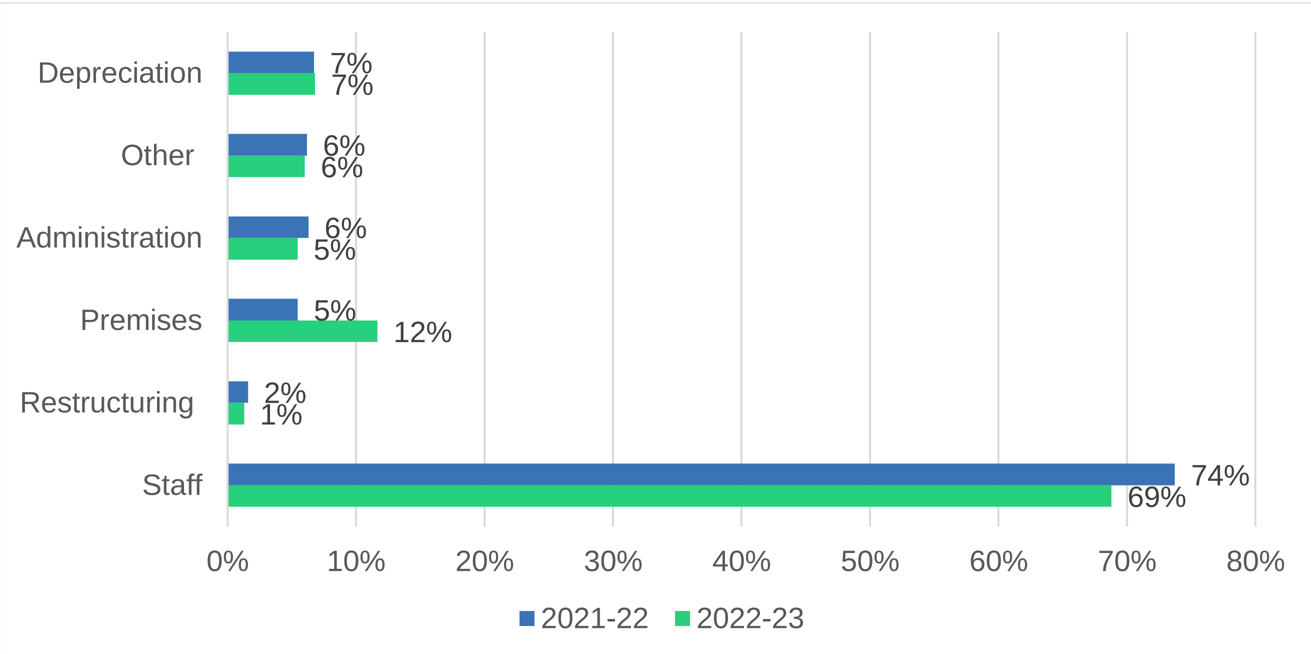
Financial performance

The College has reported an operating deficit of £2.624 million for the year ended 31 July 2023. 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 £0.400 million. The College managed to improve in year performance when compared to the initial budget deficit of c.£1.400million due to:

- £0.600million of voluntary severance savings;
- £0.600million of vacancy management savings; and
- £0.300million of non-staff efficiency savings.

The College's main source of income continues to be grant funding from the SFC (86% of total income in 2022/23). The financial position improved in the year due to several one-off increases in funding - primarily from the SFC - which has allowed it to undertake a significant voluntary severance programme throughout the year. Other positive variances included retention of SFC 2021/22 funding, and cost savings.

Exhibit 1 Key expenditure items 2 years comparison

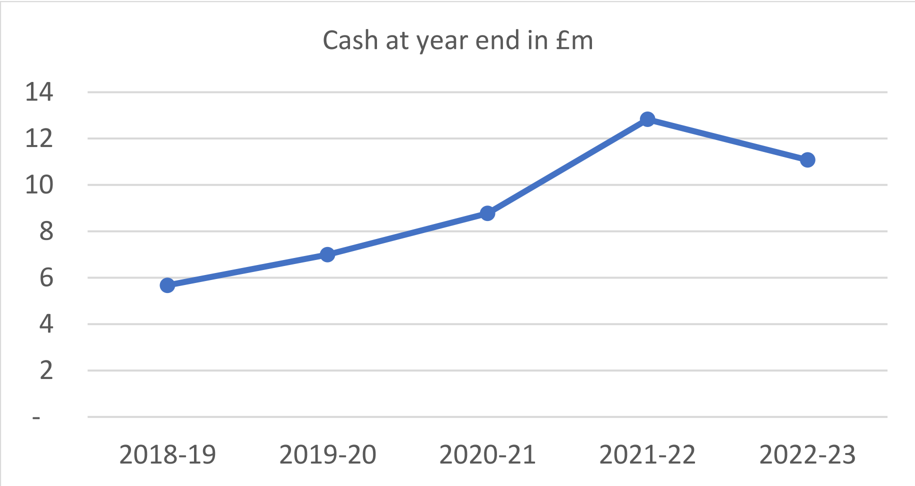


Source: West College Scotland accounts

Staff costs, taken together with the job evaluation costs, continue to be the highest area of spend for the College accounting for 69% (74% in 2021/22) 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.

The cost of voluntary severance in the year was lower than last year at £0.861 million (£1.064million in 2021/22) and 50 members of staff took advantage of the scheme in 2022/23. 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.

Exhibit 2 Cash position



Source: West College Scotland accounts

The cash balance held by the College was £11.086 million at year end. The College budgeted for 22 days of cash to be maintained, while the current cash position represents 68 days. The College expects that this will go down to £1.462 million (or 11 cash days) after the year end due to the timing of the following payments:

- £4.624millions of SFC and other creditors; and
- £4.994million of provisions.

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

Budget Setting

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

The College's 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 documents.

The budget preparation process is built upon contributions 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 £4.075million on ongoing maintenance of the existing estate.

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 on general IT controls identified some weaknesses in relation to key financial systems.

Recommendation 2

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. Recent incidents in other organisations have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

We have considered risks related to cyber security at the College within our integrated audit as part of our understanding of the College's use of IT. Based on this initial assessment, we concluded that overall arrangements are appropriate, caveated by our findings in relation to general IT controls as highlighted above.

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 based on our recommendation 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 as appropriate. 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.

Overall, the College's arrangements with respect to NFI are satisfactory. We will follow up completion of the work as part of our 2023/24 audit.

Financial sustainability

Significant audit risk

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

Extract from External Audit Plan - Financial sustainability
Significant risk description The College continues to face significant financial challenges, operating within tight financial parameters, and activity continues to plan the measures required to ensure the College is in a long-term sustainable position. The 2022/23 Financial Forecast Return (FFR), as approved by the Board in October 2022, anticipated an adjusted operating deficit of £1.5m in 2022/23, with future operating deficits totalling £5.6 million expected from 2023/24 to 2026/27. The adjusted operating result is the key financial measure used by the College. It takes the operating position per the accounting standards and adjusts it to exclude non-cash items. As outlined in the financial management section above the College has identified potential savings opportunities totalling £1.4 million for 2022/23 to address the budget deficit and at the year-end achieved an adjusted surplus of £0.400 million. A key risk existed around the College’s ability to deliver funding credits. The College had a shortfall of c.4,700 credits in 2022/23, which is in excess of the 2% allowance granted by the SFC. Any excess over the 2% threshold is subject to potential SFC’s claw back of the related student credits funding. This resulted in 1,600 credits being repayable to the SFC (equivalent to c£600k). Staff cost continues to be a significant pressure area for the College 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 emerging and uncertain impact on the College’s finances and ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk.
Key observations The College has continued to face significant financial challenges which will require additional cuts to planned expenditure to reach a long-term sustainable position. Based on the most updated position in 2023-24 the College estimates a small adjusted operating deficit of £0.068million, followed by three years of deficits adding up to a total of £16.769million between 2024-2027. This position is based on 2% pay award assumption, inflationary pressures on non-staff cost and

increased utility costs. It also includes an expectation of no other sources of income and no change to the Scottish Government or SFC funding model. The College is working towards achieving a break even position at the end of 2023-24 with the detail outlined below.

Our work and conclusions on the budget and financial forecasts for 2023/24 onwards are set out below.

The exhibit below presents the financial forecast over the next four years, together with the main cost drivers impacting the deficit. However, as outlined in the section below the 2023-24 budget assumes a small surplus and the financial forecast is being updated by the College to reflect the changes to its finances. The detailed assumptions are presented in the sections below.

Exhibit 3 Financial Forecast

	2023-24 (£m)	2024-25 (£m)	2025-26 (£m)	2026-27 (£m)
Operating deficit	2.779	4.127	5.560	7.082
Pay award (2%)	950	970	990	1.010
Increased utility costs	718	378	443	512

Source: October 2022 Financial Forecast

Short Term Financial Planning

The further education sector has received a 'flat cash' settlement from the Scottish Government for 2023/24 which equates to a reduction of 8.5% in real terms.

As a result, Scotland's further education sector faces an extremely challenging financial future given (i) general and wage inflation costs significantly exceed funding level increases, (ii) the impact of Covid-19 disruption continues to have an impact, (iii) making changes and refining the delivery models to be as sustainable as possible in the current context brings resource implications related to planning and managing this change, and the outputs themselves may have consequences (expected and potentially unanticipated) in how the College is positioned for future success and the extent to which it can meet the needs of the stakeholders it services.

The College is heavily reliant on SFC funding which currently represents c.86% of the College's total income; as such, a small movement or impact in grant funding has a significant impact on the College's financial position.

The SFC published final colleges' funding allocations in May 2023. The 2023/24 SFC main grant allocation for the College is £45.043 million and this is to support delivery of 140,450 of student credits. This credit target represents a reduction of 10% in education delivery, from 157,235 in 2022/23. The reduction in the 2023-24 credit target has resulted in a reduction in SFC core income of £0.337million (0.7%).

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

- the level of lifecycle and high priority estate maintenance funding will be kept at the same level as 2022/23;
- 2% salary increase;
- the level of Flexible Workforce Development Funding - whilst not confirmed - has been reduced to core contractual levels for 2023/24;
- all other income streams have been held at historic levels after detailed discussions with the relevant budget holders;
- utility costs have been modelled based upon the latest market intelligence supplied by APUC and utilising the expected gas and electricity usage per campus. This has resulted in a reduction in the anticipated utility costs; and
- costs savings equivalent to 2% of all non-staff costs.

The College has reduced its overall core staffing costs by £2.200 million when compared to the October 2022 financial forecast 2023/24 budget. These reductions have been achieved through implementing course delivery changes across all sectors, changes to the curriculum management structure, removal of vacancies if no longer felt required, and the 2022 voluntary severance programme. This work is supported by a formal change programme called *Be the Change* which looks at transforming the College, infrastructure and delivery model. Staff efficiencies will still be required as part of the ongoing process of staff management through the management of in year vacancies and other staff costs.

The budget for the year 2023/24 was presented to the Board of Management in April 2023, projecting a small operating deficit of £0.068 million. The current level of savings achieved is £0.830million against £1.980million target in the savings plan. The College is aware that £1million of savings and the cost of the voluntary scheme might not be achieved due the time necessary to reshape the workforce. The Board expectation is that the College will be able to balance the budget.

The savings plan focuses on the following activities:

- maximisation of all revenue opportunities;
- ongoing vacancy management;
- review of class teaching times and class consolidation where possible; and
- tight control of all non-staff budgets.

Medium Term Financial Planning

The College is in the process of updating its financial planning as the current documents have been updated for 2023/24 budget, but the medium to longer term forecast is based on October 2022 financial forecast.

The Financial Strategy presented to the Board of Management in October 2022, covers the period 2022-2027. The College's overall strategy was taken into consideration when preparing this document.

The College estimates three years of deficits adding up to a total of £16.769million between 2024-2027. This position is based on a 2% pay award assumption and increased utility costs. It also includes an expectation of no other sources of income and no change to the Scottish Government/SFC funding model. The College has also prepared an alternative scenario for the years between 2022-25, with a more pessimistic assumptions of reduction in funding, pay increases and inflationary increases; this scenario would reduce the operating position by a further £2million.

The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2023-24 and in every subsequent year thereafter.

Identified mitigating actions for the next two years relate mainly to course delivery, curriculum management and review of the Inverclyde provision. This is expected to generate c.£2.7million of savings, while the expected deficit for the next two years is c.£4million, leaving £1.3million of required savings still to be identified.

The most recent opportunity for the College to reduce the cost further is its pension fund proposal to reduce contribution rates for the next three financial years. If agreed that could provide £2.783million of savings over that period. However, it is important that the risks and potential impact of this is worked through and understood with all key parties.

The key challenges facing the College

The College is facing the following challenges:

- flat cash SFC settlement meaning reduction in funding in real terms;
- impact of the inflation on the staff cost which is the main cost driver for the College;
- ageing estate with insufficient funding available to maintain it;

- increased competition in the education sector; and
- cost of living increases and declining student number trends possible as a result.

Another key document used for financial planning is the FFR which is an established part of the SFC's financial health monitoring framework. The FFR allows the SFC to monitor and assess the medium-term financial planning and health of colleges. The October 2022 FFR required colleges to report actual financial performance for the session 2022-24 and forecasts through to 2026-27. The FFR has been prepared and included deficits resulting from staff increases.

Whilst the cash position and projections of the College don't suggest significant cashflow issues, if the planned savings are not achieved there is a risk of having a negative cash balance in 2024/25 financial year if no mitigating actions are taken.

Impact on education provision

West College Scotland, as any other further education institution, delivers its services to the public through teaching. Therefore, its teaching and support staff are crucial to the College fulfilling its role. We note that due to the above financial constraints, the College must identify savings, with staff costs accounting for the significant majority of College spend. It is the main cost driver as a 1% change equates to c.£0.450 million increase/decrease in cost.

In the previous three years, the College generated savings through the voluntary severance scheme and decreased its workforce by 10% (or 116 staff) with 2020/21 used as a base year. At the time when the financial forecast was presented the College considered savings that would result in a reduction in staffing levels with cumulative impact of 22% reduction across 2022-2027 period. This equates to 174 full time equivalent.

Exhibit 4 Staff plans

	2023-24 FTE	2024-25 FTE	2025-26 FTE	2026-27 FTE
Vacancy management	10	10	0	0
Voluntary severance	54	18	37	38
% of FTE	7%	4%	5%	5%

Source: October 2022 Financial Forecast

The most recent budget monitoring update referred to at least 44 staff members needing to leave the College by the end of 2023-24 financial year in order to achieve a balanced 2024-25 budget.

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

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

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 the 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 a high-level 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 College's projects included a number of roofs renovations, Oakshaw relocation, Clydebank workshop redesign and Paisley café and Leaner Development space refurbishment.

In January 2022 Ryden carried out priority surveys across all the College estate. This fed 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. The College is reviewing its Corporate Strategy which will then be followed by an update to the Estate Strategy which is scheduled to be completed in 2024.

For 2023/24, the College has allocated £2.175million for estates maintenance projects from the SFC allocation. In addition to that £2.800million has been brought forward from previous years and there has been £0.856million of grant funding. This funding is mainly used for the current maintenance priorities with only small elements of the finding being available for capital purposes. Compared to the result of 2019 survey this indicates a significant gap in capital funding available to meet the needs of the estate. The College is aware of that issue and its 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.

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.

Recommendation 3

Vision, leadership and governance

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

Vision and leadership

As part of the re-evaluation of the College Corporate Strategy, the College undertook a series of workshops and consultations in 2023 and updated its vision and values. The vision consists of three elements: collective ambition, pride and passion, inspirational and innovative.

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: personalization, collaboration, agile and adaptive, and digital. The College plans to review this strategy, but it has been paused until later in 2023 to take into account various reviews and change programmes ongoing in the sector.

Another main document for the College is the Curriculum Strategy 2021-26. This strategy considers the priorities, student needs, pandemic impact, local communities and other stakeholders, national strategies and priorities which all are treated as key curriculum drivers. The key aims and priorities refer to four themes as per the main corporate strategy. The curriculum outlines relevant actions against each of the themes.

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 is planned to be undertaken in 2024 as required by the Code of Good Governance for Scotland Colleges. The review was performed by a self-assessment survey and reported to the Board at the June 2023 meeting. Overall, the additional feedback received from Board members was considered as positive. Several areas were identified for improvement, and these have been incorporated into the 2023 Board Development Plan.

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.

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 annual assurance opinion was provided to the Audit Committee in September 2023. In their opinion the Internal Audit concluded that the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of audit work. This opinion also stated that proper arrangements are in place to promote and secure Value for Money.

Standards of conduct

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

Use of resources to improve outcomes

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

Performance management arrangements

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

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

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

Performance framework

Performance is monitored routinely throughout the year by the Board and Committees on a regular basis, 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 within the Corporate Strategy are being currently aligned with its reporting on performance indicators with development of relevant metric to measure progress ongoing.

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 Principals Report.

Performance results

Exhibit 5: Performance results

	KPI	*Target 23-24*	Actual 2022-23	Actual 2021-22	Movement
1	Student Activity (total credits)	*140,450*	152,460	157,663	↓
2	Performance against core credit activity target	*100.0%*	97.0%	96.7%	↑
3	% of students overall, satisfied with their college experience	*96%*	95%	88%	↑
4	% of full-time FE enrolled students achieving a recognised qualification	*67%*	67.3%	63.3%	↑
5	Early withdrawal full-time FE	*	5.7%	9.4%	↑
6	% of full-time HE enrolled students achieving a recognised qualification	*69%*	59.5%	56.9%	↑
7	Early withdrawal full-time HE	*	6.5%	6.6%	↓
8	% of credits delivered to students in 10% most deprived postcode areas	*26%*	26%	24%	↑
9	% of credits delivered to care experienced students	*9.0%*	9.1%	9.2%	↓
10	Number of senior phase age pupils studying vocational qualifications	*2,200*	2,200	1,942	↑
11	Percentage of staff sickness absence	*4.0%*	4.0%	4.4%	↓
12	Percentage of staff turnover	*15.0%*	19.2%	12.9%	↑
13	Adjusted operating surplus/(deficit)	*£31,000*	£400,000	£500,000	↓
14	Free cash days at year end	*5*	10	7	↑
15	Current assets : current liabilities	*0.89*	0.99	0.97	↑
16	Staff costs as a % of total cost	*81.1%*	82.6%	83.2%	↓
17	Percentage of non-SFC income	*13.6%*	13.6%	14.5%	↓

*Early withdrawal rate to be rebased to reflect withdrawal at 12.5% of year 23/24, 25% 22/23.

Source: 2022/23 draft annual report and accounts

The College’s performance against key performance indicators for academic year 2023 shows that for the second year in a row the student credits target have not been met. The College delivered 152,460 credits in the academic year against its target of 157,235 (3% below the target) as set by the SFC for academic year 2022/23. We note that the actual credits delivered are lower than prior years which were at 157,663.

The main reasons for the shortfall against the core credits was August recruitment being below target and linked to other factors, including reduced progression from 2021-22 courses due to COVID, industrial action, increased University recruitment activity/impact, cost of living pressures on prospective students, and availability of employment.

On the other measures:

- the non-SFC income decreased compared to prior year and as a percentage of total income;
- sickness absence decreased and was contained within the target 4%, while staff turnover increased significantly from 12.9% to 19.2% and well above 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) increased to 0.99.
- students satisfaction levels increased from 88% to 95%.

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.

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.

Recommendation 4

Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 percent reduction in greenhouse gas emissions by 2030.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. All public bodies need to reduce their direct and indirect emissions and should have plans to do so. Many public bodies also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change.

The key actions the College have taken to reduce climate change are set out in the table below:

What targets has the body set for reducing emissions in its own organisation or in its local area?	The College's Sustainability Strategy commits to a net zero target by 2040, noting that significant investment will be required to achieve this target.
Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	The College has a Sustainability Strategy available on its website.
How does the body monitor and report progress towards meeting its emission targets internally and publicly?	The College reports to each Corporate Development Committee on the actions taken to address the sustainability challenges faced by the College.
Has the body considered the impact of climate change on its financial statements?	Yes, the College considered impact on their financial statements as per the comment below.
What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	The College does not expect climate change to have a material impact on the financial statements in the short term. It does consider that global warming may have impact on the future learning environments required. Increasing water levels and associated flood risks were considered in 2022 as part of the insurance renewal process and no material risk was identified for those campuses close to a water source.
Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?	Yes, the College consider financial sustainability in its financial statements, discussing its strategy, progress during the year and other activities.

Appendices

Appendix 1: Responsibilities of the College and the Auditor

Responsibilities of the College

The College has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

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, working with senior executives.
Financial statements and related reports	The Board has responsibility for: • preparing financial statements which give a true and fair view of its financial position and the 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 that support its financial statements and related reports 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; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the College. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users

Area	The College's responsibilities
	about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. The Board of Management is responsible for ensuring the development and implementation of 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.

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 2021 Code came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General 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.

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 Audit Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

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

Our period of total uninterrupted appointment as at the end of 31 March 2023 was one year.

Audit and non-audit services

The total fees charged to the College for the provision of services in 2022/23 were as follows:

	Current year £	**Prior year £**
Auditor remuneration	50,870	30,960
Pooled Costs	(7,460)	1,600
Audit support costs	1,310	1,440
Sectoral cap adjustment	5,440	-
Total fee	**50,160**	**34,000**

The FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We are not providing any non-audit work to the College.

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 the item corrected following discussions with management is as below.

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCIE Dr / (Cr) £'000
1.	Fixed assets	2,365			
	Impairment				(1,801)
	Depreciation				(564)
	Fixed assets	(245)			
	Revaluation reserve			245	
	Net impact on SOCIE			**-**	**(1,801)**
	Net impact on net assets				**1,801**

Unadjusted misstatements

We identified one unadjusted misstatement.

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCIE Dr / (Cr) £'000
1.	Pension asset	145			
	Actuarial gain				(145)
	Net impact on SOCIE			**-**	**(145)**
	Net impact on net assets				**145**

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 College's 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.	Gain on revaluation of assets was added to the statement of comprehensive income and expenditure.
2.	Actuarial gain on pension scheme has been added to the statement of changes in reserves.
3.	Related parties disclosures were updated to include relevant amounts.

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 audit.

Action plan grading structure

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated as follows:

Rating	Assessment rationale
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.

Current year action plan

1. Accounts preparation	Low
Observation	We received financial statements, subject to finalisation of the pension and valuation adjustments, before start of the audit on 8 September. We received the draft financial statements with those adjustments on the first day of the audit on 13 September. We were made aware by the College that the draft performance report will be provided later and we have received those on day three of the audit, as discussed. In future, we recommend that a full set of annual accounts and report is provided on or before the first day of the audit.
Implication	Incomplete and late provision of annual report and accounts can lead to audit inefficiencies.
Recommendation	We recommend a full set of annual report and accounts is provided on the first day of the audit or before.
Management response	The College accept the audit finding. **Responsible officer:** Vice Principal Operations **Implementation date:** September 2024

2. IT general controls	Low
Observation	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).
Implication	There is a risk of systems issues adversely impacting the control environment and/or financial statements.
Recommendation	We recommend that the specific IT points identified are addressed.
Management response	The College have been working with Azets to conclude the IT audit. The IT audit work was carried out late in the audit which has not allowed for current audit findings to be finalised with the College. The College have reviewed and responded to all IT audit recommendations and will work to resolve any actual identified weakness and will continue to prioritise IT Security as an absolute requirement. **Responsible officer:** Vice Principal Operations **Implementation date:** 31 December 2023

3. Capital plan	Medium
Observation	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.
Implication	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.
Recommendation	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.
Management response	The College undertook Estates Priority Condition survey work in January 2022 which has informed the programme of ongoing maintenance into the areas of most need. In the last 12 months this saw an extensive programme of roof works carried out across the Paisley campus. The College Estates budget is stretched each year being used to cover ongoing maintenance requirements, this work will continue into the coming year across all campuses and particularly the Oakshaw Building on the Paisley campus. The College carried out Property Condition Reports in 2019, these reports were considered when the Priority Maintenance Survey work was conducted. These Condition Reports highlight the high volume and value of future investment required in the College Estate. The College are aware that funding required to fully maintain the College Estate will not be made available to the College however the Scottish Funding Council have kicked off an Infrastructure Group - covering Estate and Technology requirements, which will consolidate the investment necessary to maintain College infrastructure into the future with the same basis of measurement being applied across each College. The

3. Capital plan	Medium
	approach will follow the Scottish Government Schools review which has successfully seen over £10bn invested in Education Infrastructure across Scotland. This SFC Infrastructure group will represent all College requirements and present necessary investment requirements to SG ministers. The College capital plan is limited by investment funding. The College are aware of the absolute necessity to Invest, particularly in the Greenock Finnart Street campus having an absolute commitment to the community of Inverclyde and the continued delivery of further education in this area. The College are aware of the difficulty in gaining capital funding and in the short to medium term are working on a structured investment programme for Greenock looking beyond Scottish Funding Council to secure capital funding for this essential project. The College’s capital funding plan is restricted by the ability to achieve funding and therefore whilst there is an absolute recognition and understanding of where and when investment is needed any future plans are restricted. The College will continue to campaign for funding to support the ongoing delivery of College education in each of the communities it serves. The College’s estates strategy runs to 2026 and is due to be refreshed in the coming year following the refresh of the Corporate Strategy. The new strategy will have a far greater emphasis on Sustainability – now a core part of all College estates works and wider. The strategy will also highlight the ongoing investment requirements for the College whether they can be funded or not. The future investment requirements will be updated through the work of the SFC Infrastructure Group. **Responsible officer:** Vice Principal Operations **Implementation date:** Summer 2024

4. Performance indicators	Low
Observation	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.
Implication	The users of the accounts and Board members might not be able to make informed decisions due to insufficient detail provided.
Recommendation	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.
Management response	The College accept the recommendation and are currently working on the KPI reporting for the College. These recommendations are helpful and will be built into future KPI reports for the College. **Responsible officer:** Vice Principal Operations **Implementation date:** Easter 2024

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