Forth Valley College

Annual Audit Report year ending 31 July 2023

forvis mazars

Contents

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Date 15 August 2024

Dear Members,

Annual Audit Report – Year ending 31 July 2023

We are pleased to present our Annual Audit Report for the year ended 31 July 2023. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Annual Audit Plan which we presented to the Audit & Risk Committee on 15 May 2023. We have reviewed our Annual Audit Plan and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07881 283 571.

Yours Faithfully,

Michael Speight
Michael Speight (Aug 15, 2024 13:57 GMT+1)

Michael Speight
Director
Forvis Mazars LLP

1) Executive Summary

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of Forth Valley College ('the College') for the year ended 31 July 2023 and formed the basis for discussion at the Board of Management meeting on 20 June 2024. An earlier draft of this report formed the basis of discussion at the Audit Committee meeting on 21 November 2023.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice ('the Code') issued by Audit Scotland. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Area	Responsibility
Opinion on the financial statements	We have issued an unqualified opinion, without modification, on the financial statements. Our audit opinion is included in the auditor's report in Appendix B.
Opinion on regularity	We have issued a qualified regularity opinion, meaning that in our opinion, there is a material breach of regularity.
Opinion on other requirements	We have issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely, that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	We have been made aware by management that the College undertook a project which continued into 2022/23. Concerns were raised in respect of this project which resulted in an internal management review, a forensic internal audit and the preparation by management of a lessons learned report. In respect of this dimension of wider scope the following exceptions have been identified: • The appointment of certain suppliers was in a manner inconsistent with the organisation's standard procedures; 1) In respect of the expenditure with the above suppliers, totalling £485,343 in 2022/23 corresponding contracts had not been drawn up and agreed; and 2) In respect of the expenditure with the above suppliers, totalling £485,343 in 2022/23 single source supplier approvals had not been obtained. We concluded as follows against each of the four wider scope dimensions:

Area	Responsibility
	• With the exception of the above, the College has effective arrangements, including budgetary control, that help the Board Members scrutinise finances; • The College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over the medium to longer term, without significant additional funding or cost cutting, remains a significant risk; • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management; and • With the exception of the above, the College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Our audit and regularity opinion is included in the draft audit report in Appendix B.

Status of our audit work

We have completed our audit work on the financial statements and wider scope work for the year ended 31 July 2023.

Internal control recommendation and misstatements

In respect of our audit work required to provide an opinion on the financial statements, we identified two control weaknesses during our audit and have raised internal control recommendations. Given this was our first year performing the audit there were no internal control recommendations from prior years to provide an update on.

Section 4 outlines the misstatements noted as part of our audit.

Our audit approach

We provided details of our intended audit approach in our Annual Audit Plan on 15 May 2023. We have not made any changes to our audit approach since we presented our Annual Audit Plan.

Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever-changing business needs. Our aim is to add value to Forth Valley College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set materiality at the planning stage of the audit at £732,496 using a benchmark (1.75%) of total income. There was no change in this figure in our final assessment of materiality.

Level of materiality	Initial Threshold £'000	Final Threshold £'000
Overall materiality	732	732
Performance materiality	476	476
Trivial threshold for errors to be reported to the Audit Committee	22	22

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgements and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Performance materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is the level we use to calculate our sample sizes and drives our acceptable difference in any substantive analytical procedures. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the risk level. Our initial assessment of performance materiality is based on low inherent risk and takes into account this is the first year we have audited the College, meaning that we have applied 65% of overall materiality as performance materiality. This assessment has not changed during the audit process.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

2) Audit of the financial statements

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Annual Audit Plan;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 16 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

As part of our planning procedures, we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although our report identified significant risks at the planning stage of the audit in our Annual Audit Plan, our risk assessment is a continuous process, and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Annual Audit Plan.

Description of significant risk	Our response and conclusion
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	**How we addressed this risk** We addressed this risk by performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. **Audit conclusion** From the work performed on journals and from our work performed over accounting estimates we have not identified any issues in respect of management of override of controls.
Revenue recognition There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement	**How our audit addressed this area of management judgement** We addressed this risk by performing audit work over:

Description of significant risk	Our response and conclusion
of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when certain income streams should be recognised and if clawback conditions apply to any funding. The risk above applies only to the non-core grant income and other non-grant income generated by the College. The risk has been rebutted in relation to the core grant income received by the College, given the highly regulated nature of this income, and therefore the lower inherent and fraud risks associated with it.	• The design and implementation of controls management has in place to ensure income is recognised in the correct period; • Cash receipts around year end to ensure they have been recognised in the right year; • The judgements made by management in determining when non-grant income is recognised. • Obtaining counterparty confirmation for major grant income; and • Expected credit loss provisions applied to receivables at the year end, considering the appropriateness of judgements made by management. **Audit conclusion** From the work performed we have identified no material misstatements in respect of revenue recognition.
Expenditure recognition For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations. The pressure to manage expenditure to ensure that budgeted outcomes are achieved increases the risk surrounding fraudulent reporting of expenditure.	**How we addressed this risk** We addressed this risk by performing audit work over: • The design and implementation of controls management has in place; • Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the appropriate year; • Testing material year end payables, accruals and provisions; and • Reviewing judgements about whether the criteria for recognising provisions are satisfied. **Audit conclusion** From the work performed we have identified no material misstatements in respect of expenditure recognition.
Defined benefit pension scheme assets There is a significant asset value used in calculating the Falkirk Council Pension Fund (FCPF) position as at 31st July 2023 and due to the nature of the pension scheme there is	**How we addressed this risk** We addressed this risk by obtaining confirmation from the pension fund of the total value submitted to the actuary and details of how the College's share of assets has been calculated.

Description of significant risk	Our response and conclusion
significant complexity in identifying the College's share of the assets. The complexity is created by factors such as: • The types of assets held by the pension scheme and their valuation bases; and • The calculation of the College's share of the overall Scheme assets requiring the rolling forward of quarter-end valuations.	We then reviewed this confirmation and consider if the information provided is sufficient and challenge any inconsistencies noted. **Audit conclusion** From the testing performed we are satisfied that the assets used in the calculation of the defined benefit pension position are materially stated. We are also satisfied that the accounting policy to not recognise the notional surplus in respect of the pension surplus is compliant with the applicable accounting standards. As a consequence of the delay in finalisation and signature of the financial statements, the triennial valuation of FCPF to 31 March 2023 was released in March 2024. Where this is deemed to constitute an adjusting post balance sheet event, the year-end actuarial valuation has been updated and the financial statements amended.

Key Areas of Management Judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

Description of management judgement	Our response and conclusion
Defined benefit pension scheme assumptions The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Falkirk Council Pension Fund (FCPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS scheme and it is therefore accounted for as a defined contribution scheme. The College's share of the FCPF's underlying assets and liabilities is identifiable and the net position is recognised in the accounts. There are significant assumptions used in calculating the value of the liability element of the year-end position of the FCPF.	**How our audit addressed this area of management judgement** • We considered the arrangements put in place, including the controls, for making estimates in relation to pension entries in the financial statements; and • We considered the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts. **Audit conclusion** From the testing performed we have gained assurance that the liability portion of the

Description of management judgement	Our response and conclusion
	pension scheme calculation is materially stated. As a consequence of the delay in finalisation and signature of the financial statements, the triennial valuation of FCPF to 31 March 2023 was released in March 2024. Where this is deemed to constitute an adjusting post balance sheet event, the year-end actuarial valuation has been updated and the financial statements amended.
Early Retirement Provision The College includes a provision in their financial statements in respect of staff who receive an enhanced pension for accepting early retirement. The calculation of the value of this provision uses a model which incorporates actuarial assumptions.	**How our audit addressed this area of management judgement** We considered the actuarial assumptions used by the actuary when calculating the provision value. **Audit conclusion** From the testing performed we have gained assurance that the early retirement provision is materially stated.
Valuation of land and buildings The College held land and buildings with a net book value of £117m as at 31 July 2022. In line with FRS102, revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The Government Financial Reporting Manual notes valuation advice must be obtained from a suitably qualified valuers who has sufficient current local and national knowledge of the particular market, and in line with FRS 102 requirements that note the fair value should usually be determined via an appraisal that is normally undertaken by professionally qualified valuers. For the 2023 year-end DM Hall (Chartered Surveyors) provided the College with an interim valuation which will be used to update the carrying values. Given the significance of the value of fixed assets held a misstatement in the valuation could be material to the financial statements.	**How our audit addressed this area of management judgement** We have performed a range of substantive procedures including: • Ensuring valuations and impairments have been completed on the appropriate basis and that movements are in line with our expectation; • Review of the reconciliation between the College's asset register and general ledger; • Considering the College's impairment review process for land and buildings; and • Considering the prior year treatment of land and buildings. **Audit conclusion** Satisfactory assurance has been gained in respect of the valuation of land and buildings in the current year. In relation to the prior year, we note there is an adjusted misstatement that has been raised in

Description of management judgement	Our response and conclusion
	respect of the value of the property being held on the balance sheet at the end of the prior period. This is due to there being a material difference between the fair value of the property and the value it is held at within the accounts as at the prior year end.

Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2022/23 and were appropriately tailored to the College's circumstances.

Draft financial statements and draft annual report were received from the College on 25 September 2023 at the start of audit fieldwork. Both draft financial statements and the draft annual report were of good quality, however we note the prior year adjustment in relation to the Fixed Asset valuation was not included within.

Producing good quality audit working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers provided for audit were of a good standard and staff were responsive to our requests during the audit.

Significant matters discussed with management

At 31 July 2023 the College's share of the Falkirk Council Pension Fund was recorded as a notional surplus as the value of the defined benefit obligation was less than the fair value of the plan assets at that date. We have had discussions with management as to the most appropriate accounting treatment and disclosure and management has opted to not recognise the associated asset on the balance sheet due to the existence of an actuarial asset ceiling cap of £nil. We are satisfied that recognition policy is acceptable under the relevant accounting standards.

We have had extensive discussions with management in respect of an incident within a College project whereby the College's standard procedures in relation to supplier appointment; drawing up and agreement of supplier contracts and use of single source supplier approvals have not been followed. The audit implication of this situation is explained across several sections of this Report.

Communication during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full cooperation of management. The draft accounts, working papers and annual report were all provided in line with the agreed timetable. We would like to express our thanks to management and college staff for their cooperation throughout the audit.

3) Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist of improvements that could be made.

Priority Ranking	Description	Number of issues in current year
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	-
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	-

Deficiencies in internal control - Level 2

Description of deficiency and potential effects	Recommendation and management response
Description of deficiency During our review of the valuation of land and buildings it was noted that the last valuation report and subsequent adjustment was performed in the year ended 31 July 2020 with no subsequent review of the fair value has taken place until the current year audit. **Potential effects** As per the 2019 SORP: Accounting for Further and Higher Education where the asset is valued at fair value there is a requirement to “Revaluations must be sufficiently regular	**Recommendation** We recommend the policy in respect of fair value reviews is updated to consider the position on an annual basis. Our view is that this does not need to be a full valuation report but can take the form of an indexation estimate or an interim valuation, from an appropriately qualified property valuation expert.

Description of deficiency and potential effects	Recommendation and management response
so that the carrying value of an asset at the reporting date is not materially different from its fair value.”. Given the time difference between the valuation report and the substantial value of the assets relative to the College’s balance sheet we anticipated that the land & buildings in the 2022 financial statements were materially misstated and as such a prior year restatement would be required. We have received the valuation report as at 31 July 2023 and confirm that that a restatement is required.	**Management response** Whilst we have always requested reviews for impairment from a professional surveyor, we accept that this should also include reviews for uplifts to carrying values. We have therefore amended the accounting policy to reflect a full valuation every 3 years supplemented by an indexation estimate or an interim professional valuation in the intervening years.
Description of deficiency During our review of the related parties, we noted the register of interest was not being maintained on a consistent basis. **Potential effects** There is the potential that related parties are not known to the college and therefore fail to be disclosed appropriately within the annual report.	**Recommendation** We recommend the declarations of interest are provided for inclusion into the register of interests, at a minimum yearly. **Management response** We do have a process for an annual update at each financial year-end to ensure correct disclosures in the financial statements. We accept that there has been delays in receiving responses this year. In accordance with the Code of Good Governance, Board members will be reminded of the need to inform the College of any changes to their declaration of interests within one month, as well as timeous confirmation of accuracy at the financial yearend.

4) Summary of misstatements

We set out in this section the misstatements identified during the course of the audit, above the level of trivial, for adjustment.

Adjusted misstatements

During the course of our audit we have noted the following items which have been corrected from the work we have performed:

- The revaluation adjustment relating to the land & buildings revaluation was only included in the statement of changes in reserves and was not initially included within Other Comprehensive Income in the Statement of Comprehensive Income. This was subsequently adjusted.
- In respect of the land & buildings valuation as at 31 July 2022, from a subsequent valuation report prepared by DM Hall it was identified that the relevant assets were undervalued by £31m. The comparative figures in the 2023 financial statements have been subsequently restated to reflect the new valuation.
- As a consequence of the delay in finalisation and signature of the financial statements, the triennial valuation of FCPF to 31 March 2023 was released in March 2024. Because this is deemed to constitute an adjusting post balance sheet event, the year-end actuarial valuation has been updated and the financial statements amended. The overall impact on the Balance Sheet is £nil. In gross terms, the assets have reduced by £2.3m and liabilities have increased by £1.5m, resulting in a reduction in the unrecognised notional surplus of £3.8m.

Unadjusted misstatements

There were no misstatements that have not been adjusted by management that were identified during the course of the audit.

5) Wider scope

Our approach to Wider Scope work

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

- Financial sustainability
- Financial management
- Vision, leadership and governance; and
- Use of resources to improve outcomes.

The table overleaf sets out the four dimensions of wider scope and our adopted approach.

Dimension	Description	Our approach
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	We have considered: • the monitoring of the effectiveness of internal control arrangements • whether the College's budgetary control system is timely and accurate • whether and how the College has assessed their financial capacity and skills
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the college's arrangements for financial planning and affordable and sustainable service delivery.	We have considered: • the financial planning system in place for short-, medium- and long-term periods; • the adequacy and accuracy of financial reporting arrangements; and • the reasonableness of affordability assumptions made in financial planning.
Vision, leadership and governance	Vision, leadership and governance covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.	We have considered: • the effectiveness of internal control arrangements; • the appropriateness of disclosures made in the Governance Statement; and • whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met.

Dimension	Description	Our approach
Use of resources to improve outcomes	Use of resources to improve outcomes concerns using resources effectively and continually improving services.	We have considered: • the College’s evidence of providing value for money; and • the focus on improving value for money and the pace of change at the College.

Financial management

Dimension

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

Our conclusion

We have been made aware by management that the College undertook a project which continued into 2022/23. Concerns were raised in respect of this project which resulted in an internal management review, a forensic internal audit and the preparation by management of a lessons learned report. In respect of this dimension of wider scope the following exceptions have been identified:

The appointment of certain suppliers was in a manner inconsistent with the organisation's standard procedures;

- In respect of the expenditure with the above suppliers, totalling £485,343 in 2022/23 corresponding contracts had not been drawn up and agreed; and
- In respect of the expenditure with the above suppliers, totalling £485,343 in 2022/23 single source supplier approvals had not been obtained.

With the exception of the above, Forth Valley College has effective arrangements, including budgetary control, that help Board of Management members scrutinise finances.

Financial performance

FE/HE SORP position

Area	2022/23 £'000	2021/22 £'000
Operating income	41,857	42,007
Staff costs	(29,508)	(30,905)
Operating expenditure	(15,947)	(15,764)
Operating Deficit for the year (FE/HE SORP basis)	**(3,598)**	**(4,662)**

The above table shows the financial performance of the College for 2022/23 and 2021/22 under the FE/HE SORP. Despite a deficit being shown over both years:

- The College achieved its financial targets and spending was in line with the plan;
- There were no significant changes to the reported position during the year; and
- The student credit target was met confirming the level of funding in the financial statements.

Adjusted operating position

The table above sets out the financial position in accordance with SORP requirements. The following table reflects the 'adjusted operating position' as required by the Accounts Direction issued by the Scottish Funding Council. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions. Full details of the adjustments included are shown, as required, in the Performance Report within the Annual Report and Financial Statements.

Area	2022/23 £'000	2021/22 £'000
Deficit before other gains and losses	(3,598)	(4,662)
Add back: Depreciation (net of deferred capital grant release)	3,627	2,075
Impairment	144	-
FRS102 SWAP Rate valuation movement	(339)	(360)
Donation to Arms-Length Foundation	-	1,500
Non-cash pension adjustments – net service costs	652	3,440
Non-cash pension adjustments – net interest cost	23	464
Non-cash pension adjustments – early retirement provision	(352)	(1,588)
Deduct: Non-government capital grants from ACF	-	(60)
CBP allocated to loan repayments and other capital items	(201)	(193)
NPD income applied to reduce NPD balance sheet debt	-	-
SFC declared adjusted operating (deficit)/surplus	(44)	616

The Accounts Direction issued by the SFC for 2022/23 requires Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off.

The table above shows that once the non-cash and other applicable adjustments are made, the College has a deficit in the year.

Impact of depreciation budget

The Statement of Comprehensive Income and Expenditure is prepared under the FE/HE SORP, which does not permit the inclusion of the non-cash budget for depreciation. Colleges may show a deficit equivalent to net depreciation as a result of having to meet Government accounting rules.

Area	2022/23 £'000	2021/22 £'000
Operating Deficit for the year (FE/HE SORP basis)	(3,598)	(4,662)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for the academic year	613	613
Operating surplus / deficit on Central Government accounting basis	**(2,985)**	**(4,049)**

The table above shows a deficit when the impact of the depreciation budget is taken as the only adjusting factor to the financial position. The operating position table on the previous page also shows an operating deficit for 2022/23.

The deficit is considered to be as a result of an increase in costs due to rising staff costs due to national wage and national insurance raises, and the cost of the voluntary severance scheme put in place by the College during the year.

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements in place at the College. Our work consisted of a review of budget monitoring reports and committee papers along with attendance at committees. Overall, we consider that the Board of Management obtains regular and timely financial information that reflects the actual financial position.

We note that budget reports are produced on a timely basis and considered by the appropriate committee throughout the year. Budget reports and forecasts were appropriately updated based on prudent assumptions, there was considered to be no unreasonable movements throughout the forecasts and budgets.

The Finance committee (now Finance, Resource and Infrastructure Committee {FRAIC}) considers the management accounting pack regularly alongside reporting to the Board of Management. Minutes of the meetings document the level of challenge to the financial performance.

Internal controls

As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have also considered the work of internal audit, from individual reviews of financial systems and their annual audit opinion on the control framework in place at the College.

We have been made aware by management that the College undertook a project which continued into 2022/23. Concerns were raised in respect of this project which resulted in an internal management review, a forensic internal audit and the preparation by management of a lessons learned report. In respect of this dimension of wider scope the following exceptions have been identified:

The appointment of certain suppliers was in a manner inconsistent with the organisation's standard procedures;

- The appointment of suppliers in a manner inconsistent with the organisation's standard procedures;
- In respect of the expenditure with the above suppliers, totalling £485,343 in 2022/23 corresponding contracts had not been drawn up and agreed; and
- In respect of the expenditure with the above suppliers, totalling £485,343 in 2022/23 single source supplier approvals had not been obtained.

With the exception of the above, we conclude that the processes and controls in place at the College are operating effectively. The College has all the expected control, risk, performance and financial arrangements in place. There are a series of regularity documents including standing orders, articles of governance, code of conduct, and financial regulations intended to ensure regularity of transactions.

Prevention and detection of fraud and irregularity

Management and the Audit Committee, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We have a responsibility to review the College's arrangements for the prevention and detection of fraud. Our audit work was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity.

During the year, an incident of suspected fraud and potential non-compliance with College procedures was identified by the Vice Principal Finance & Corporate Affairs, relating to a College project. This matter was then subject to an internal management review, and a forensic internal audit. Following the forensic audit by the College's internal auditors, all monies due to the College were quantified and recovered. The forensic audit identified weaknesses in the application of controls around procurement and project monitoring. A "lessons learned" report was prepared by the Vice Principal Finance & Corporate Affairs and presented to the Board of Management in September 2023, and appropriate actions implemented to prevent similar incidents in the future.

All relevant parties were timeously informed, including, the Chairs of the Board of Management, Audit Committee and Finance Committee, SFC and the Charities Regulator (OSCR).

We have been provided with all requested information in relation to the incident. The conclusion of this matter is that, in our opinion, the matters set out on page 26 represent a material breach of regularity. We have therefore qualified our regularity opinion in this respect.

Financial Sustainability

Dimension

Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

Our conclusion

Forth Valley College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over the medium to longer term, without significant additional funding or cost cutting, remains a significant risk.

Identified significant risks to our wider scope work

As part of our planning procedures we considered whether there were significant risks that would impact on any of the four areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope and how we addressed the risk below.

Description of significant risk	Our response and conclusion
Financial sustainability The College prepared a three-year forecast which highlights a future funding gap. The College has taken steps to identify areas where savings can be made to mitigate the funding gap in the FFR. Given the level of sector wide uncertainties around future funding, there is a risk the timing of the future funding gap could be accelerated or made greater without the plans identified by the College being fully implemented and / or additional funding not being made available from the SFC.	**How we addressed the risk** We have addressed the risk by: • Reviewing the forecast financial position in the four-year financial plans submitted to SFC; • Considering alternative plans being considered by the College to ensure a balanced budget is achieved; and • Reviewing the financial reporting arrangements in place at the College. • Understanding that the net current liabilities of £2.97m (2022: £2.72m) arises due to the inclusion of deferred capital grants of £3.42m (2022: £3.31m). **Wider scope conclusion** During 2022/23, the College has prepared a three-year forecast which highlights a future funding gap. The College has taken steps to identify areas where savings can be made to mitigate the funding gap in the FFR. Given the level of sector wide uncertainties around future funding there is a risk the timing of the future funding gap could be accelerated or made greater without the plans identified by the College being fully implemented and / or additional funding not being made available from the SFC. As a result, we consider that there remains a risk that the College will not remain financially sustainable in medium to longer term.

Financial planning

This year the College has been requested to produce a three-year Financial Forecast Return (FFR) to the SFC.

SFC's FFR Call for Information set out two scenarios for colleges to consider.

The first scenario is the planning assumptions which are based on the Scottish Government's Spending Review. The income and expenditure projections using SFC's planning assumptions result in the following in-year SOCI operating deficits including depreciation.

Area	Forecast 2023-24 £000	Forecast 2024-25 £000	Forecast 2025-26 £000
SOCI operating surplus /(deficits) including depreciation.	(1,382)	(1,039)	(1,002)

Through the June 2023 FFR process and other financial reporting throughout the year, the College and its Board have a clear view of the financial challenges and long-term risks faced. FFR planning assumptions, as advised by the SFC, have been considered fully before use.

The FFR for this period includes providing for the cost of living pay awards in line with public sector pay policy, and for the expected cost of implementing the support staff and middle managers job evaluation. The outcome of this remains uncertain, and if negotiations result in higher levels than expected, this will have a further negative impact on the budget for 2023-24.

Further detail on the College's forecast is included in the table below:

Area	Forecast 2023-24 £000	Forecast 2024-25 £000	Forecast 2025-26 £000
Total income	40,997	40,651	40,592
Staff costs	(28,339)	(28,240)	(28,342)
Total other expenditure	(14,040)	(13,450)	(13,252)
Operating deficit before other gains and losses	**(1,382)**	**(1,039)**	**(1,002)**
Total depreciation	1,747	1,261	1,243
Loan repayments	(211)	(222)	(233)
Notional Staff cost savings		(560)	(840)
NPD payments	-	-	-
Adjusted operating result	**154**	**(560)**	**(832)**

These results are based on the assumptions provided by the SFC and are not deemed to be a fixed forecast or strategic plan. The College is actively considering a range of options in relation to the coming years and will continue to work to refine the income and costs reflected in their financial plans to better reflect actual expectations.

The forecasts have been completed based on the assumptions provided by the SFC on their website.

Looking ahead to the upcoming years, Management and the Board are fully committed to exploring all efficiency saving possibilities, new sources of commercial income and consideration of changes to working practices. However, until such time as either additional funding is made available or the College is able to identify and implement additional cost efficiencies, we therefore consider there to be concerns over the financial sustainability of the College.

Asset management and estates strategy

Capital grant funding provided to the college by the SFC is used in order to maintain the longevity of the current assets.

We consider that appropriate attention is given to the estate and assets and their continued development and improvement, and that their maintenance continues to be factored into long term plans and discussions.

Vision, Leadership and Governance

Dimension

Vision, leadership and governance covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review.

Our conclusion

Subject to the exception set out below, Forth Valley College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management.

Governance arrangements

Our work in this area has considered the overall governance arrangements in place at the College, reviewed the financial and performance reporting to the Board of Management, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also attended Audit Committees during the year.

Financial papers submitted to committees are relevant and timely. Each paper has a summary setting out the purpose of the paper and the action required by the members. Minutes are understandable and contain detail of discussions and rationale for decision making.

At 31 July 2023, the Board consisted of 17 members, 9 female and 8 male (including the Principal). The Board continues to maintain a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Bill which was introduced by the Scottish Parliament in June 2017 with an implementation date of 2022.

The key committees' membership comprises of, and are chaired by Board members, with each also containing the Principal. Appropriate College officers attend committees and present reports as required.

During the course of our work, the College made us aware of procurement non-compliance within a College project – details of which are explained on page 18. The matter was subject to an internal review and a forensic internal audit resulting in the internal production of a Lessons Learned Report which highlighted some specific recommended improvements to the College's governance framework designed to prevent a recurrence.

Governance Statement

As part of our audit we have read the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework.

The governance statement confirms the College's compliance with the 2022 Code of Good Governance for Scotland's Colleges.

We note the disclosure within the "Assessment of the effectiveness of internal controls" segment in respect of an issue in respect of demonstrating regularity within a College project.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. We also consider that the governance statement has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College has been provided by Henderson Loggie to 31 July 2023. Internal audit has attended Audit Committees throughout the year and have produced reports to support the overall Internal Audit Opinion.

Transparency

Transparency means that service users and the public have access to understandable information about how the College is making decisions and using its resources. There is a commitment to transparency, with the minutes and papers of the Board of Management and key committees being available on the website.

Use of resources to improve outcomes

Dimension

Use of resources to improve outcomes concerns using resources effectively and continually improving services.

Our conclusion

We have been made aware by management that the College undertook a project which continued in 2022/23. Concerns were raised in respect of this project which resulted in an internal management review, a forensic internal audit and the preparation by management of a lessons learned report. In respect of this dimension of wider scope the following exceptions have been identified:

- In respect of the expenditure with the above suppliers, totalling £485,343 during 2022/23 corresponding contracts had not been drawn up and agreed; and
- In respect of the expenditure with the above suppliers, totalling £485,343 during 2022/23 single source supplier approvals had not been obtained. This represents a breach of The Public Contracts (Scotland) Regulations 2015, Regulation 6 and Regulation 72.

The funding utilised in the approved expenditure which was specifically provided for the Project and was not available for wider College use.

With the exception of the above, Forth Valley College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Performance management

The College delivered its Regional Outcome Agreement (ROA) baseline target credits. A financial deficit was incurred in the year, highlighting the continued financial difficulties the College faces. There is close monitoring of the delivery of the ROA and financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget to be appropriately managed. Through this management of the 2022/23 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected.

Regularity

As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements. Regular expenditure and income is that which has been incurred / obtained in line with guidance issued by the Scottish Ministers and the terms and conditions of funding of the Scottish Funding Council.

The College has arrangements to monitor the requirements of the Scottish Funding Council, Audit Scotland and other regulatory or advisory bodies to ensure it complies with the terms and conditions of funding including regular reporting of financial and operational performance to the Board of Management and its committees.

We have been made aware by management that the College undertook a project during 2022/23. Concerns were raised in respect of this project which resulted in an internal management review, a forensic internal audit and the preparation by management of a lessons learned report. In respect of this dimension of wider scope the following exceptions have been identified:

- In respect of the expenditure with the above suppliers, totalling £485,343 during 2022/23, plus a further £417,762 in respect of previous years, corresponding contracts had not been drawn up and agreed; and
- In respect of the expenditure with the above suppliers, totalling £485,343 during 2022/23, plus a further £417,762 in respect of previous years, single source supplier approvals had not been obtained. This represents a breach of The Public Contracts (Scotland) Regulations 2015, Regulation 6 and Regulation 72.

With the noted exception of the above, our review found an effective control environment exists over regularity of expenditure and receipts. No additional instances of non-compliance with Scottish Funding Council terms and conditions were noted.

6) Audit fees

Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Annual Audit Plan, presented to the Audit Committee on date. Having substantially completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Service	2022/23 final fee £
Auditor remuneration	47,170
Pooled costs	(6,920)
Audit support	1,210
Sectoral cap adjustment	(1,900)
Total fee	**39,560**

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

We will seek a contribution from the College to our additional time costs specific to the regularity impact of the College project.

Appendix 1 – Management representation letter

Capital Square
58 Morrison Street
Edinburgh
EH3 8BP
United Kingdom

Date:

Dear Sirs

LETTER OF REPRESENTATION

This representation letter is provided in connection with your audit of the financial statements of Forth Valley College (the College) for the year ended 31 July 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 the Companies Act 2006 and relevant legislation and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you.

Responsibility for the financial statements and accounting information

We acknowledge as members of the Board of Management our responsibility for ensuring:

a) the financial statements are free of material misstatements including omissions;
b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2023;
c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records;
d) all other records and related information, including minutes of all management meetings, have been made available to you;
e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by the Scottish Funding Council (SFC) under the terms of the Further and Higher Education (Scotland) Act 1992; and
f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

Internal Audit information

Henderson Loggie acted as Internal Auditors to the College during the year to 31 July 2023. All reports issued to the College and our responses to them have been made available to you.
Internal control systems
We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

Contingencies

Aside from those disclosed in the financial statements, there are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the company have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the relevant legislation and United Kingdom Accounting Standards.

Claims and Litigation

All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

Subsequent events

There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

Related party transactions

We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.

Future commitments

The College has not contracted for any capital expenditure other than as disclosed in the accounts.

Charges on assets

The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.

Fraud and error

We are not aware of any irregularities, including fraud, involving existing management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss that we have not already disclosed to you. No allegations of such irregularities, including fraud, or such breaches have come to our attention.

Disclosed incident

We confirm that we have provided you with all the relevant information in respect of the incident which occurred within the year and has been reported to the police. We confirm that to the best of our knowledge there are no consequential disclosable contingent liabilities.

Laws and regulations

We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.

Going Concern

We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of no less than twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

Impairment review

To the best of our knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the fixed assets below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Accounting policies

We confirm that we have reviewed the accounting policies applied during the year in accordance with Section 10 of Financial Reporting Standard 102 and consider these policies appropriate to faithfully represent the effects of transactions, other events or conditions on the company's financial position, financial performance and cash flows.

Accounting estimates

We confirm that the methods, significant assumptions and the data used in making the accounting estimates are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

Unadjusted misstatements

We confirm that there were no unadjusted misstatement and we are not aware of any other misstatements within the College's accounting records which could be considered to be material to users of the financial statements.

Other Representations

The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

Yours faithfully,

...………………………………………….. Chair of Board

…………………………………………… Principal

Appendix 2 – Audit report

Independent auditor's report to the Board of Management of Forth Valley College, the Auditor General for Scotland and the Scottish Parliament

Reporting on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Forth Valley College (the College) for the year ended 31 July 2023 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Statement of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2023 and for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 18 May 2022. The period of total uninterrupted appointment is six years. We are independent of the college in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the college. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the college's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue. These conclusions are not intended to, nor do they, provide assurance on the college's current or future financial sustainability. However, we report on the college's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in our Annual Audit Report, the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Board of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the college's operations.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the college is complying with that framework;
- identifying which laws and regulations are significant in the context of the college;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the college's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Reporting on regularity of expenditure and income

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Qualified opinion on regularity

In our opinion, except for the effects of the matter set out in the 'basis for qualified opinion on regularity' paragraph, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Basis for qualified opinion on regularity

In considering the regularity of expenditure, we have identified the following transactions:

- for expenditure totalling £485,343 during the year, the college had not drawn up and agreed contracts; and
- for the same items during the year, the college had not obtained single source supplier approvals.

The above represents a breach of The Public Contracts (Scotland) Regulations 2015: Regulation 6; and Regulation 72, and as such represents irregular expenditure of £485,343. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on the audited part of the Remuneration and Staff Report

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, 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.

Other information

The Board of Management is responsible for other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on the Performance Report and Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report 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; and
- the information given 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.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Michael Speight
For and on behalf of Forvis Mazars LLP
Chartered Accountants and Statutory Auditor

Capital Square
58 Morrison Street
Edinburgh
EH3 8BP
Date:

Michael Speight is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Appendix 3 – Independence

As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Annual Audit Plan and therefore we remain independent.