

Report to the Audit & Risk Management Committee, the College and the Auditor General for Scotland on the 2022/23 audit
Issued on 04 December 2024

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Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our report to the Audit & Risk Management Committee (“the Committee”) of UHI North, West and Hebrides (“the College”) for the Lews Castle College 2022/23 audit. The report summarises our findings and conclusions made to date in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report issued to the Committee in October 2023.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date, and subject to the satisfactory resolution of the outstanding matters noted on slide 4 of this report, we expect to issue an audit opinion that is only modified in respect of the joint venture – Cnoc Soilleir. Management have recorded the College’s interest in the joint venture as £1, which is not in compliance with the relevant accounting standards, which requires the College to record their interest to be equal to 50% of the net assets of Cnoc Soilleir. Further detail is provided on slide 39.

We have provided management with comments and suggested changes based on our review of the draft Annual Report and Accounts. During the 2022/23 audit, multiple errors were identified by both management and Deloitte that related to the 2021/22 accounts that were audited by our predecessor. The required adjustments have been posted by management and these are explained in note 28 of the financial statements.

A summary of our work on the significant risks is provided in the dashboard on slide 10.

8 misstatements in excess of our reporting threshold of £7,700 (5 of which related to 2021/22) have been identified up to the date of this report which are included within slides 39-42 of this report.

Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Completion of internal quality control procedures;
- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 July 2023.

Conclusions from wider scope audit work

Financial management – Budget setting and monitoring arrangements are in place. The 22/23 adjusted operation position was an underlying deficit of £330k which differed from an original budgeted figure of a £574k deficit. The differences were understood and explanations were presented at committee for scrutiny. The finance team continues to be significantly stretched. We have noted a large number of errors within our audit which is evidence that effective review controls were not in place – see slides 39-42. We will continue to monitor progress with this during our appointment.

Financial sustainability – The College has already started to implement savings plans through the approval of severance schemes, reshaping their estates and commercial strategy, closure of the An Cotan nursery, curriculum reform, and other cost savings measures. Future funding is uncertain and further cuts may be introduced in future years. Given rising staff costs after the recent pay award and the non-staff costs suffering from an inflated costs base in recent years, the College must deliver savings plans to achieve financial sustainability.

Partner introduction (continued)

The key messages in this report (continued)

Conclusions from wider scope audit work (continued)

Vision, leadership and governance – From our conversations held and review of meeting minutes throughout the year, we have confirmed that there is an appropriate level of scrutiny and challenge made at committee level and senior managers have a culture of cooperation and working constructively in partnership.

We note that management make effective use of internal audit at the College. We have evidenced this through our review of internal audit reports and findings during the year, in addition to our attendance at Audit & Risk Management Committee meetings where internal audit present their papers to the committee.

Use of resources to improve outcomes – Lews Castle College has received favourable student feedback for both FE and HE, which is well ahead of the national average for 2022/23. Despite the high satisfaction figures, HE FTEs have declined the past year from 212 in 2021/22 to 180 in 2022/23.

Declining HE figures is providing a significant financial challenge which is coupled with reductions in funding and rising cost bases. As identified within our financial sustainability procedures, alternative operating models could be considered and savings plans need to be implemented.

Climate change – The College does not have an established Climate Change Strategy but there are carbon emissions reporting processes in place. It is essential that as detailed action plans for the merged college are developed, the College is transparent about the gaps and challenges that exist in achieving its targets.

Partner introduction (continued)

The key messages in this report (continued)

Next steps

An agreed Action Plan is included on slides 37-38 of this report.

Added value

Our aim is to add value to the College by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the College promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also included our “sector developments” on slides 33-35 where we have shared our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the college sector.

Annual Report and Accounts Audit



Quality indicators

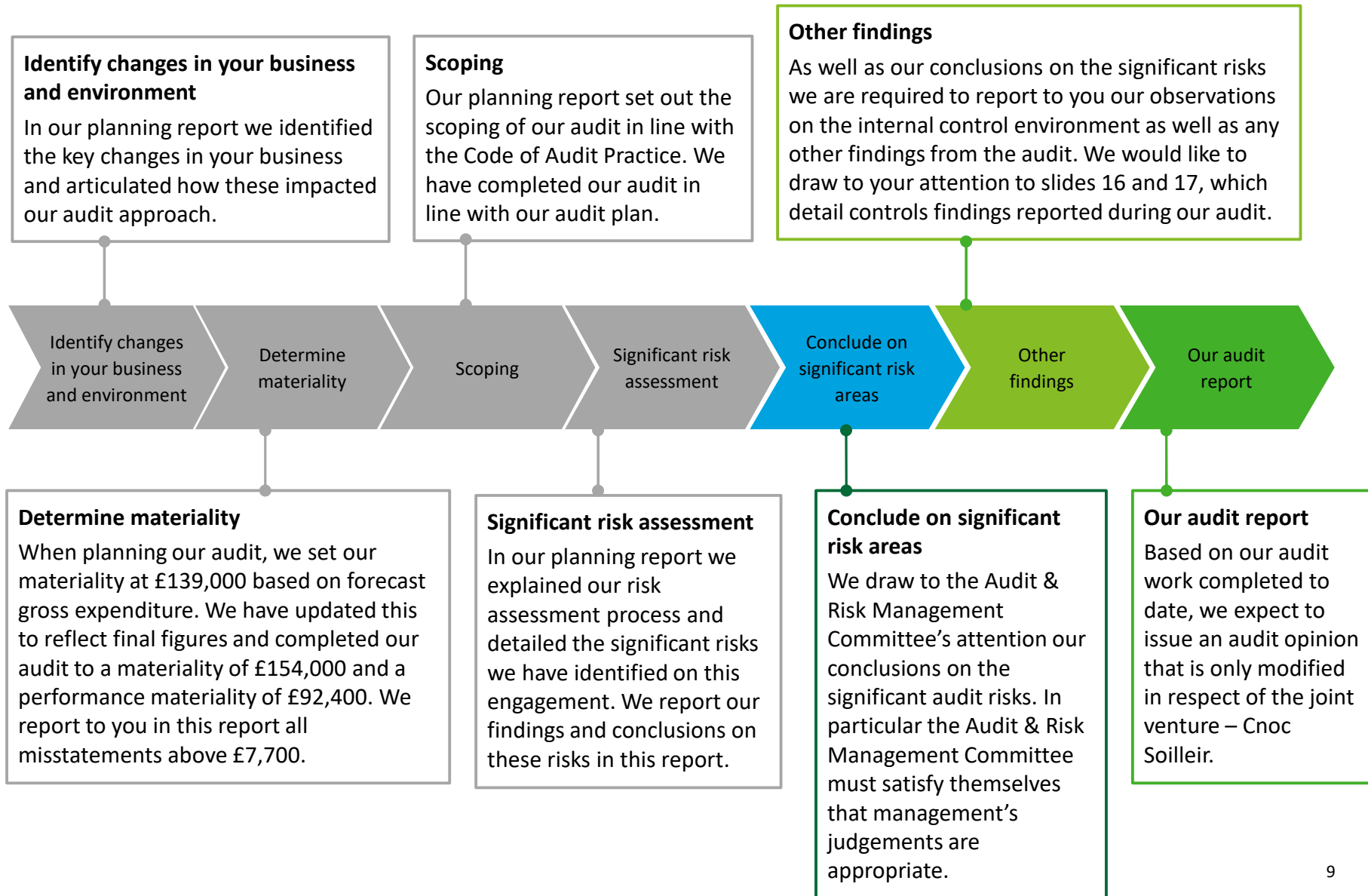
Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements	!	We experienced delays in the delivery of information regarding management judgements. This included key information needed from the college's actuary.	N/A
Adherence to deliverables timetable	!	Delays on the delivery of information was experienced during our audit.	N/A
Access to finance team and other key personnel	!	We experienced difficulty with the involvement of the finance team during the planning stages of our audit. This improved throughout the course of the audit process.	N/A
Quality and accuracy of management working papers	!	We identified instances where management working papers were below our expected level of quality. This included the initial trial balance and deferred capital grants working papers.	N/A
Quality of draft Annual Report and Accounts	!	Presentational and disclosure points were raised on the draft version of the Annual Report and Accounts and were amended by management.	Slide 17 and 42
Response to control deficiencies identified	!	Three control deficiencies have been identified. Further details can be found on slides 16-17.	Slides 16-17
Volume and magnitude of identified errors	!	Multiple material adjustments were required throughout the audit. Three misstatements related to 2022/23 and five related to 2021/22.	Slides 39-42













Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Ineffective – see slide 16 & 17	
Property valuations			Ineffective – see slide 16	
Operating within the funding provided			Satisfactory	
Completeness and cut-off of non-recurrent grant income			Satisfactory	

Consistency of judgements with Deloitte's expectations



Inconsistent



Improvement required



Consistent

Controls approach adopted



Assess design & implementation

Significant risks (continued)

Management override of controls

Risk identified

Management is 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.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have considered the overall control environment and ‘tone at the top’
- We have tested the design and implementation of controls in relation to journals and accounting estimates.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used our Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.
- We have reviewed accounting estimates for biases that could result in material misstatements due to fraud.
- We have not identified any material unusual transactions outside the normal course of business of the College.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias; and.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We identified a control weakness in relation to the IT accounting system. The programme used does not require authorisation prior to posting and therefore has resulted in a control recommendation. See slide 16 for more details.

The errors identified throughout our audit indicates there is a lack of effective review during the accounts preparation process. See slide 17 for further details.

Significant risks (continued)

Property valuations



Risk identified and key judgements

The College held £17.72m of property assets (land and buildings) at 31 July 2022.

The College is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with its modern equivalent asset. The valuations are by nature significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value.

Lews Castle College's land and buildings are revalued every 5 years for the purposes of the financial statements with an interim valuation after 3 years. Land and buildings were valued as at 31 July 2022 (interim valuation) on the basis of depreciated replacement cost by the College's appointed external valuer. The last full valuation occurred in 2019. Due to the significance of the balance and reliance on assumptions, we have identified a significant risk in relation to property valuation.



Deloitte response and challenge

We have tested the design and implementation of key controls in place around the property valuation and impairment analysis.

We have reviewed and tested the valuation disclosures made in the Annual Report and Accounts.

We have engaged with the College, using our valuation specialists, Deloitte Real Asset Advisory, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the College's Land and Buildings.

We have tested the inputs to the valuation and the key asset information provided by the College to the valuer back to supporting documentation.

Deloitte view

We identified a control weakness in relation to the valuation process for land and buildings in FY23. Although there is a control finding, no material differences were identified. See slide 16 for more details.

Significant risks (continued)

Operating within the funding provided



Risk identified and key judgements

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should consider the risk of fraud and error on expenditure.

We therefore considered the fraud risk to be focused on how management operate within the funding limits set by the Scottish Funding Council. There is a risk that Lews Castle College could materially misstate expenditure in relation to year-end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year-end and invoices processed around the year-end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year-end.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Funding Council. Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals and prepayments made at the year-end;
- Obtaining independent confirmation of the funding allocated to Lews Castle College by the Scottish Funding Council (SFC) and the University of Highlands and Islands (UHI);
- Performing focused testing of accruals and prepayments made at the year-end; and
- Performing focused cut-off testing of invoices received and paid around the year-end.

Deloitte view

Prepayments and accruals are areas where misstatements may occur if expenditure is manipulated around year end to present a more favourable position. Our work in these areas found no issues.

Significant risks (continued)

Completeness and cut-off of non-recurrent grant income



Risk identified and key judgements

ISA (UK) 240 states that when identifying and assessing the risks of material misstatements due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams for Lews Castle College and concluded that the risk of a material misstatement due to fraud can be pinpointed to the non-recurrent funding as there is no judgement in respect of the recurrent grants from the SFC and UHI. We have pinpointed the non-recurrent funding risk to be in relation to:

- Incorrect income cut-off recognition, as there is a risk that the College can manipulate its financial position around the year-end;
- Incorrect recognition applied to grant income with conditions attached; and
- Incorrect recognition where performance conditions are in place.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the completeness of income. Our work in this area included the following:

- Evaluating the design and implementation of controls around recognition of non-recurrent income;
- Performing focused cut-off testing of a sample of invoices raised and income received around the year-end;
- Performing focused testing of grant income where there are conditions of entitlement including clawback clauses; and
- Performing focused testing of income with performance conditions attached.

Deloitte view

Based on audit work performed we did not identify any errors within the non-recurrent grant income.

Other Areas of Audit Focus

Defined benefits pension scheme

Background

Retirement benefits to employees of the College are provided by the Teachers Pension Scheme (TPS) which is administered by the Scottish Public Pensions Agency (SPPA) and the Highland Council Pension fund (HCP) administered by local government.

The defined benefit pension scheme was in a surplus position of £302k at 31 July 2022 with £11,112k of assets and £10,810k of liabilities.

Hymans Robertson are the College's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements. The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies and no significant changes in the membership of the scheme or accrued benefits are expected in the current year. As a result, we have not identified this as a significant risk.

Deloitte response

We have evaluated the results of our audit testing in respect of the pensions testing. Our work in this area included the following:

- Assess the independence and expertise of the actuary supporting the basis of reliance upon their work;
- Review and challenge the assumptions made by Hymans Robertson;
- Obtain assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- Assess the reasonableness of the College's share of the total assets of the scheme with the Pension Fund annual accounts and the Funds estimated asset position at 31 July 2023;
- Review and challenge the calculation of the impact of the McCloud and Goodwin cases on pension liabilities;
- Review the disclosures within the accounts against the FE/HE Statement of Recommended Practice (SORP); and
- Engage Deloitte's internal pensions experts to assist with the above procedures.

We identified material misstatements in relation to the recognition of the pension surpluses in both the 2022/23 and 2021/22 financial years. See slide 40 and 41 for further details.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
<p>Lack of Valuation Review</p> <p>As a five-year valuation plan is in place, we expect alternative procedures to be performed in non-valuation years. This was not the case for FY23, no control activities in relation to revaluations have been performed by management.</p> <p>We performed our own indexation exercise as part of our testing procedures and this did not indicate material valuation movement year over year.</p>	<p>Alternative procedures should be put in place in non-valuation years e.g. indexation exercises and impairments reviews.</p>	<p>Agreed.</p> <p>For action in FY23-24 by North, West and Hebrides.</p> <p>FY23-24 is a full valuation year for previous LCC properties. A quantity surveyor has been instructed.</p>
Observation	Deloitte recommendation	Management response and remediation plan
<p>Authorisation of Journal Entries</p> <p>Journal entries are not approved before being posted into the general ledger, thereby increasing the risk of errors or fraudulent postings as there is no preventative control. Instead, there is a detective control whereby journals are reviewed outside the system and signed on paper copies by reviewers.</p>	<p>We recommend that a preventative control of journal authorisation be put in place within the IT system as best practice. Evidence of preparation and authorisation should be documented against the journal.</p>	<p>Noted.</p> <p>The College is unable to implement this recommendation as its' finance system does not have the necessary functionality. The College has in place a mitigating control, whereby all journals are printed out, reviewed and that review evidenced by wet signature.</p>

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
<p>Financial statements review</p> <p>We noted through our review of the annual report and financial statements that Government Financial Reporting Manual (FReM) required disclosures had not been originally recorded.</p> <p>We also identified a higher-than-expected number of amendments from the initial draft provided and later adjustments not being posted correctly.</p>	<p>The annual report and financial statements should be reviewed in line with the FReM mandatory disclosures. They should also be reviewed by a second senior finance staff member to ensure segregation of duties and accurate postings have been made.</p>	<p>Agreed, compliance checklists to be completed for FReM disclosures.</p> <p>For action in FY23-24 by North, West and Hebrides.</p>
<p>Accounts preparation process</p> <p>Multiple material misstatements were identified throughout the audit. Three misstatements related to 2022/23 and five related to 2021/22.</p> <p>The cause of these errors have arisen from a lack of effective review controls in preparation of the financial statements.</p>	<p>The financial statements should be prepared by staff members with appropriate levels of skills and experience. The financial statements then should be subject to secondary review by a more senior finance team member who also has relevant skills and experience.</p>	<p>This recommendation relates to the prior year and changes were made to strengthen the finance team during 2022-23. This resulted in the finance team identifying and drawing Deloitte's attention to the multiple errors noted in this observation.</p>

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

Leu Castle College's Annual Report and Accounts have been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the 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), except for the accounting treatment relating to the joint venture - Cnoc Soilleir Limited. Further detail is provided on slide 39.

Mandatory disclosures from the FReM were not originally present but have been included in the final version of the annual report and financial statements.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal auditor and reviewed their work and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the College on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the Annual Report and Accounts

Based on the current status of our audit work, and satisfactory completion of the outstanding matters detailed on slide 4, we envisage issuing an audit opinion that is only modified in respect of the joint venture – Cnoc Soilleir.



Going concern

At the time of writing this report, we have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

At the time of writing this report, there are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

At the time of writing this report, we have no matters to bring to the attention of the Committee in relation to expenditure and income in the Annual Report and Account not being incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Your Annual Report and Accounts

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the College's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the College.	We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit and is not otherwise misleading.
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and have noted that it has been prepared in accordance with the FReM in respect of pension disclosure.</p>

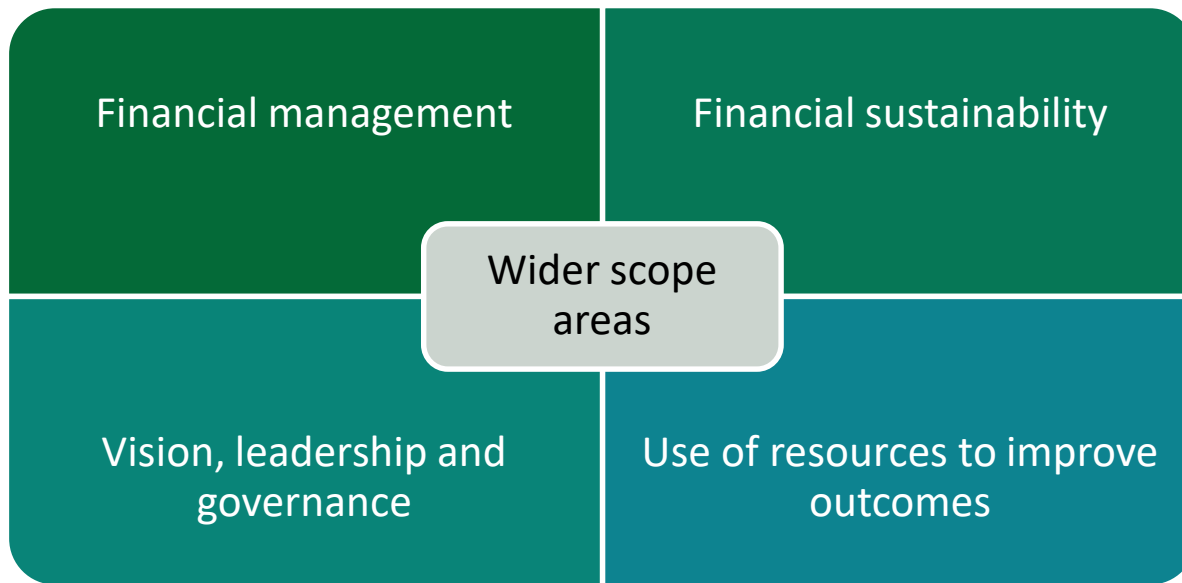
Wider scope audit



Wider scope requirements

Overview

As set out in our audit plan, 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 of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



In its planning guidance, Audit Scotland has also highlighted that climate change is also a national or sectoral risk that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits

Our audit work has considered how the College is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions.

Wider scope requirements (continued)

Financial management

Was financial balance achieved (or if before end of financial year is it expected to be achieved)?



Is there sound budgetary processes in place?



Is the control environment and internal controls operating effectively?



Financial Management

Significant risks identified in Audit Plan

The College's finance team has faced ongoing resourcing challenges. Staffing changes pose a risk to the continued effectiveness of the finance function, and the College has recruited a new Finance Director and Financial Controller during the year.

Current year financial performance

The College has faced significant financial challenges during 2022/23, which are projected to continue across future years in the new merged college. From a financial management perspective, we note that the final outturn position was significantly different to the 2022/23 budget set at the beginning of the year.

The budgeted adjusted operating position for Lews Castle College in 2022/23 was an adjusted operating deficit position of £0.57m. This consisted of budgeted adjusted income of £6.26m and budgeted adjusted expenditure of £6.84m. The final outturn position achieved was an adjusted operating deficit of £0.33m which consisted of adjusted income of £6.56m and adjusted expenditure of £6.89m.

The budget was set with a focus on priorities and outcomes. The Board members regularly review progress against budget throughout the year, with quarterly reporting to the Board and the Finance Committee. From review of the reporting throughout the year, variances are clearly reported and explained, including the reasons for the financial performance differing from the original budget. There is also a clear link between the financial information reported in the year and the Annual Accounts through a clear reconciliation within the Performance Report.

Wider scope requirements (continued)

Financial management (continued)

Finance team structure

The finance team has experienced changes in staff during the year with the recruitment of a new Director of Finance and Financial Controller.

We have noted several findings in our substantive testing because of errors in financial accounting and the absence of effective review controls. We believe there has been historic issues with capacity and appropriate knowledge and experience within the finance team.

Internal controls and internal audit

The Board has financial regulations in place which are available to all staff.

The appointed Internal Auditors have an independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

We have analysed the work performed by internal audit, including the number of recommendations made in the year compared to previous years and how promptly recommendations have been addressed. Internal audit concluded that, for the areas reviewed during the year, UHI Outer Hebrides had reasonable and effective risk management, control and governance processes in place.

Deloitte view – financial management

We have not noted any issues with the budgetary processes at the College. Management should consider implementing additional review controls to reduce the risk of errors within financial reporting.

Wider scope requirements (continued)

Financial Sustainability

Have any short term financial challenges been identified and addressed through a financial recovery plan?



How appropriate are the arrangements put in place to address any identified funding gaps?



Are there plans in place to support how efficiency targets are to be met?



Financial Sustainability

Key risk identified

The financial environment in which the College operates is challenging, with the impact of declining student numbers, together with inflationary pressures and national pay negotiations continuing to exacerbate an already challenging financial position.

Management continue to explore options to deliver savings and grow income, however this is a significant challenge and risk for the College which will require collaboration both within the College and other stakeholders.

The College has also merged with 2 other colleges effective 1st August 2023 with a view to ensuring the future financial sustainability of the College, however the financial plans for the merged college show a challenging financial outlook with recurring deficits until 2027/28.

There is therefore a significant risk that the robust medium to long term planning arrangements are not in place to ensure that the merged college can manage its finances sustainably and deliver services effectively.

Plans to address funding gaps

Lews Castle College has operated with significant financial pressures for some time and a number of steps have already been taken. These have included:

- Closing the An Cotan nursery
- Revising the curriculum offering
- Voluntary severance schemes
- Streamlining administration and support functions
- Revising the states strategy
- Funding advances from UHI

The Board has approved this plan as the only route currently available to restore financial sustainability in the absence of any significant changes to the operating and funding model.

Wider scope requirements (continued)

Financial Sustainability (continued)

Medium to Long-term financial planning

The College has also merged with West Highland and North Highland Colleges effective 1st August 2023 with a view to ensuring the future financial sustainability of the College.

A budget for the merged college was drafted in July 2023 which showed a budgeted adjusted operating deficit of 3.2m for 2023/24 and forecasted adjusted operating deficits of 3.8m for 2024/25 and 3.8m for 2025/26.

The future forecasted positions are using assumptions of funding which are not yet known at the stage of preparation, but they do demonstrate that the College is expecting extreme challenges to become financially sustainable.

The College submitted savings plans to UHI when they requested an advance on future funding. The plans included recurring savings of 1.2m per annum that had already been identified and additional recurring savings of 2.4m per annum that need to be implemented. The further planned cost savings include additional Voluntary Severance Schemes and more aggressive operating cost savings.

Deloitte view – financial sustainability

We note that FE recruitment levels at Lews Castle College remained strong throughout 2022/23, and the College exceeded their FE target for 2022/23.

Lews Castle College as an individual entity ceased to exist post year end following the merger with North Highland and West Highland colleges. The new merged entity is facing financial sustainability challenges, specifically in relation to flat funding and rising staff costs.

The merged college must deliver savings plans to achieve financial sustainability.

3.21 Wider scope requirements (continued)

Vision, leadership and governance



Significant risks identified in Audit Plan

The previous auditor concluded in 2021/22 that the key features of good governance were in place at the College and operating effectively.

The latest Strategic Plan was for 2021 to 2025 and given the mergers with the 2 other colleges, there will be revisions to future strategy.

Vision and strategy

The College merged with 2 other colleges effective 1st August 2023 with a view to ensuring the future financial sustainability of the College. An initial consultation took place with staff, students, and the public in early 2022. Feedback from the initial consultation supported the development of the full merger proposal and business case, which was originally published on 8 August 2022.

The boards of management at all three colleges met in November 2022 and voted unanimously in favour of merger.

The merger proposal and business case was submitted to the Scottish Government and approved by Graeme Dey MSP, the Scottish Government Minister for Higher Education and Further Education, Jenny Gilruth MSP, Cabinet Secretary for Education and Skills, and ratified through the Scottish Parliament in June 2023.

The business case prepared includes a clear vision that is underpinned by values, behaviours, key strategies and plans. The colleges established Transition Boards and Local Advisory Committees to ensure leadership and governance arrangements are in place throughout the merger process.

Wider scope requirements (continued)

Vision, Leadership and Governance (continued)

Governance arrangements

We note from our review of committee meeting minutes and our attendance at Audit & Risk Management Committee meetings that the College demonstrates that the governance arrangements in place are operating effectively.

From our review of meeting minutes throughout the year, we have confirmed that there is an appropriate level of scrutiny and challenge made during meetings.

We note that management make effective use of internal audit at the College. We have evidenced this through our review of internal audit reports and findings during the year, in addition to our attendance at Audit & Risk Management Committee meetings where internal audit present their papers to the committee.

Community engagement

The merger consultation was developed through extensive consultation with staff, learners and all other key stakeholders.

The strategic plan and policies are all published publicly, evidencing the information is accessible to relevant communities.

Leadership

We note from our review of committee meeting minutes and our attendance at Audit & Risk Management Committee meetings that the leaders of the College are adapting to a changing environment.

From our review of committee minutes and discussion held with key personnel during the year, we note that members and senior managers have a culture of cooperation and working constructively in partnership.

Deloitte view – Vision, leadership and governance

The College had established a transition board to provide scrutiny and challenge for the merger post year end. The board has demonstrated leadership by working collaboratively to adapt to a changing environment.

Wider scope requirements (continued)

Use of Resources to Improve Outcomes

Can the body demonstrate that there is a clear link between money spent and outputs and the outcomes delivered?



Are outcomes improving based on the trend within the organisation and relative to pace of change in comparable organisations?



Does the audited body provide information about how services are improving?



Is the pace of improvement appropriate to the risk and challenges facing the body?

Risks identified in Audit Plan

The 2021/22 audit report highlighted that performance had improved across the majority of Key Performance Indicators.

As discussed under financial sustainability, there is a significant risk that the College does not have plans in place to manage its finances sustainably. Linked to this, there is a risk that performance management systems are not sufficient to demonstrate how resources are being directed to improve outcomes.

Performance reporting

Lews Castle has a strong focus on the quality of its students' experience and on quality enhancement across its provision and services. This was evidenced by Annual Engagement review of Lews Castle College in August 2023 by Education Scotland where they found strengths in the College's work in relation to Recruitment, Retention, Attainment and Progression and no major points for action.

Student recruitment and retention

One of the key KPI's in place at the College is in relation to student recruitment. This is monitored and reported to the College Board of management. We note that the key metrics are HE and FE student recruitment. In 2022/23, the College delivered a total of 4,919 FE credits against a target of 4,760 (103%). Lews Castle College delivered a total full-time equivalent (FTE) HE students of 180 FTE against a target of 219 FTE, equivalent to 82% of the target.

There is an acknowledgement of the lower than budget HE activity in the year and the College have plans in place to improve upon this going forward. A curriculum review is due to take place in order to improve on these targets.

Deloitte view – Use of resources to improve outcomes

Despite operating in a financially challenge environment, the College has been able to achieve their target for FE credits during the 2022/23 year and have above national average student satisfaction scores. HE recruitment fell below their target, and we understand actions are already being taken to address the this.

Wider scope requirements (continued)

Climate change

Risks identified in Audit Plan

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% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Deloitte view – Climate change

As a relatively small sized organisation, the opportunities for emissions reductions are limited. The College reports basic carbon data in the annual report but the impact on the financial statements is minimal given the size of the organisation.

The College has identified opportunities to progress the Net Zero Agenda across the new merged college and plans were included as part of the merger business case and proposal. We recommend that these targets are incorporated into a wider Sustainability Strategy with key performance indicators that are reported to the College Board on a timely basis

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Risk Management Committee and the College discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the College, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the College.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

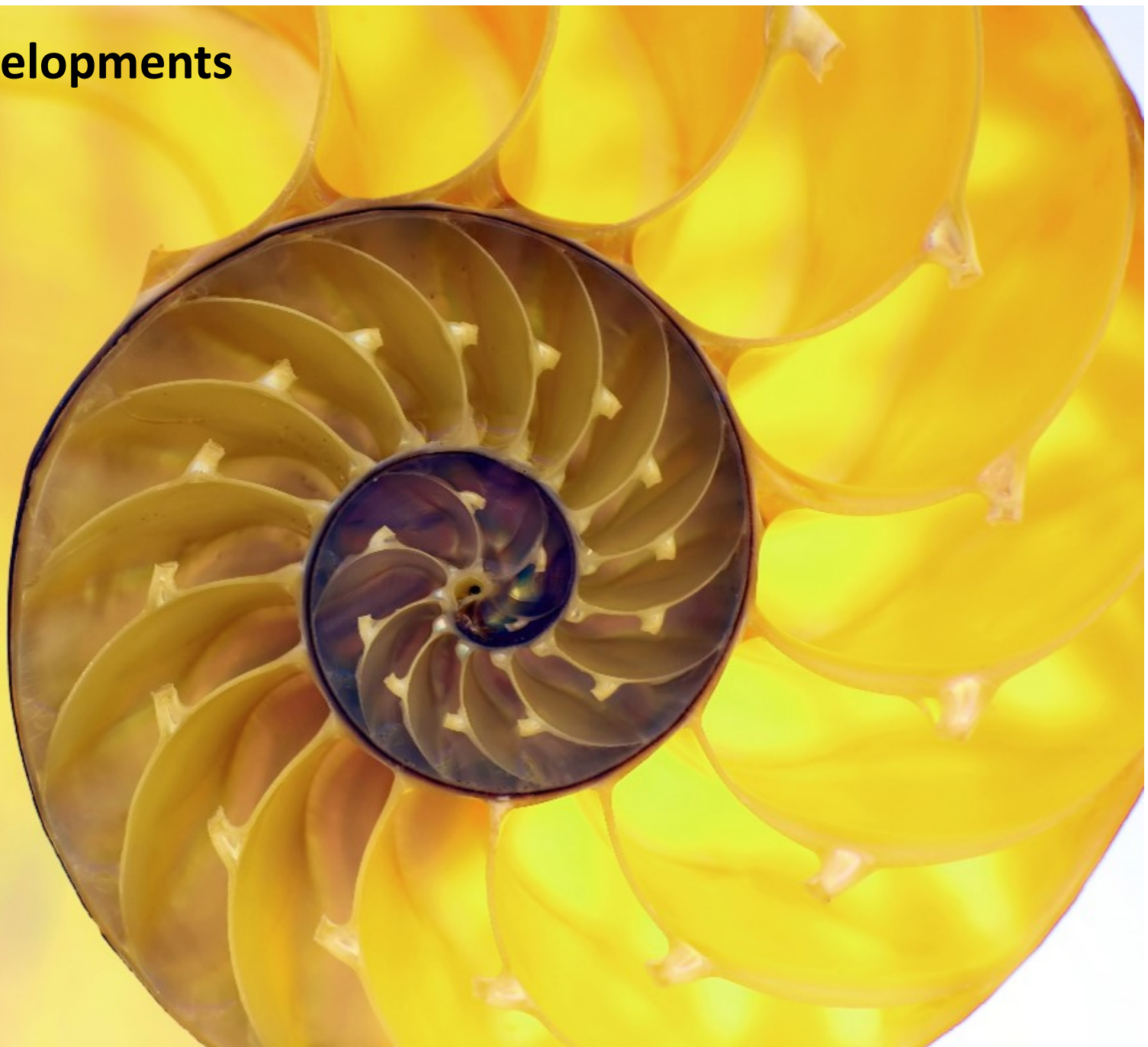
Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Cardiff | 4th December 2024

Sector developments



Scotland's Colleges 2023

Audit Scotland Briefing Paper

Background and overview

Scotland's Colleges offer academic and vocational courses to develop people's skills and knowledge for work, continued study or general interest. The Scottish Government has a central role in setting policy and funding the college sector.

Key Findings:

1. Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.
2. The Scottish Government's funding for the sector has reduced by 8.5% in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
3. Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

Scotland's colleges 2023

A briefing paper



AUDITOR GENERAL 

Prepared by Audit Scotland
September 2023



State of the State Report 2022/23

From the pandemic to a cost of living crisis

Background and overview

The 11th edition of Deloitte and Reform's report on the UK public sector was launched in November 2022. Since 2012, we have aimed to create an annual snapshot of what's happening across government and public services to serve as an evidence base for informed discussion.

This year's State of the State finds public attitudes deeply affected by the cost of living crisis, pessimistic for the future and passionate about climate change.

After years of reacting to crises, the latest State of the State report finds officials across the public sector eager for reform and calling for bold decisions about the future of government and public services.

Some key findings:

- The public are split on the right balance between taxes, borrowing and public spending;
- The public's message to government: deal with the crises, but don't neglect net zero;
- Our survey data found that the Scottish and Welsh Governments, as well as the NHS, are among the most trusted parts of the public sector but trust has slipped overall;
- Public sector leaders are eager for reform and calling for bold decisions about the future of government and public services.



Good Practice in Annual Reporting

National Audit Office (NAO)

Background and overview

Effective annual reporting in the public sector is more important than ever. The COVID-19 pandemic and, more recently, the energy price crisis have resulted in extraordinary public spending interventions by the government to support the public and the economy. Making government spending transparent and understandable to those who fund it – taxpayers – is therefore critical. Annual reports must clearly tell the ‘story’ of how these monies have been spent and what has been achieved. Crucially, annual reports and accounts must give assurance on how effective outcomes are being secured and how the risk of fraud and loss to the public purse is being

appropriately managed and controlled.

Good reporting equips stakeholders with information they can use to hold organisations to account. This is why high-quality annual reports and accounts are fundamental to effective accountability.

The NAO has published a guide setting out good practice principles that it believes underpin good annual reporting. These principles are grouped under: Supporting accountability, Transparency, Accessibility, and the need for the report to be Understandable.

Against these principles, the guide highlights examples which demonstrate attributes of good-practice reporting, including:

- Joined-up reporting.
- A frank and balanced assessment of risks and opportunities facing an organisation.
- Understandable non-financial information.
- Linkage between financial and non-financial information.
- Accessibility considerations.

Appendices



Action Plan

The following recommendations have arisen from our 2022/23 audit work performed to date:

Recommendation	Management Response	Priority	Responsible Person	Target Date
1. Lack of Valuation Review Alternative procedures should be put in place in non-valuation years e.g. indexation exercises and impairments reviews.	For action in FY23-24 by North, West and Hebrides. FY23-24 is a full valuation year for previous LCC properties. A quantity surveyor has been instructed	Medium	Kevin Mallett Head of Finance	31-Oct-24
2. Authorisation of Journals We recommend that a preventative control of journal authorisation be put in place within the IT system. Evidence of preparation and authorisation should be documented against the journal.	Noted. The College is unable to implement this recommendation as its' finance system does not have the necessary functionality. The College has in place a mitigating control, whereby all journals are printed out, reviewed and that review evidenced by wet signature.	Medium	Management	N/A

Action Plan

The following recommendations have arisen from our 2022/23 audit work performed to date:

Recommendation	Management Response	Priority	Responsible Person	Target Date
3. Financial statements review The annual report and financial statements should be reviewed in line with the FReM mandatory disclosures. They should also be reviewed by a second senior finance staff member to ensure segregation of duties and accurate postings have been made.	Agreed, compliance checklists to be completed for FReM disclosures. For action in FY23-24 by North, West and Hebrides.	Medium	Kevin Mallett Head of Finance	30-Nov-24

Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). The total impact of the 2022/23 uncorrected misstatements (across this slide and the next), if corrected, would increase net assets by 4,710k and decrease the deficit by 31k. Failure to adjust the financial statements will result in a qualified audit opinion in respect of the joint venture arrangement.

2022/23 Uncorrected misstatements		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Joint venture – Cnoc Soilleir	[1]	-	4,710	(4,679)	(31)	See slide 17
Total		-	4,710	(4,679)	(31)	

2021/22 Uncorrected misstatements		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Joint venture – Cnoc Soilleir	[1]	-	4,679	(2,011)	(2,668)	See Slide 17
Total		-	4,679	(2,011)	(2,668)	

[1] - The College and Ceolas Uibhist Limited entered into a 50:50 joint venture arrangement on 17 June 2019 to establish Cnoc Soilleir Limited, a jointly controlled entity limited by guarantee, to take forward the development and operation of the Cnoc Soilleir building and facility in Daliburgh, South Uist. The entity falls under the scope of the definition for jointly controlled entities within the HE/FE SORP and should be recorded in line with paragraph 14.8 of FRS102. Management believes that the true value of the asset to the College is £1 since they do not have significant use of the asset owned by the JV entity, therefore, the asset has been impaired to £1 in the financial statements. The impairment posted by management is not compliant with the financial reporting frameworks. This issue was identified during our 2022/23 audit but also relates to prior periods.

Audit adjustments

Corrected misstatements

2022/23 Corrected misstatements		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Deferred Capital Grants	[1]	-	(170)	-	170	See slide 17
Recognition of pension surplus	[2]	(1,959)	1,959	-	-	See slide 17
Total		(1,959)	1,789	-	170	

2021/22 Corrected misstatements		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Income and expenditure reserve brought forward	[3]	-	-	(73)	-	See slide 17
Recognition of pension surplus	[2]	(302)	302	-	-	See slide 17
Total (continued on the next slide)		(302)	302	(73)	-	

[1] – The amount released from deferred capital grants to the income statement during the period was originally calculated using incorrect term lengths for the grants.

[2] – The local government pensions scheme was in a surplus position at both 31/07/2023 and 31/07/2022. The surplus was restricted to nil with a corresponding restriction to the actuarial gain within other comprehensive income in the signed 21/22 accounts. The same basis of preparation was used in 22/23. The surpluses in both years should both have been recognised in full since the College can benefit from reduced future contributions to the scheme.

[3] – The income and expenditure reserve brought forward into 2021/22 excluded 73k that should have been recognised as part of the 2020/21 actuarial gain.

Audit adjustments

Corrected misstatements (continued)

2021/22 Corrected misstatements (continued)		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Exclusion of the pension past service cost	[4]	-	(556)	-	556	See slide 17
Cashflow statement	[5]		See notes below			See slide 17
Total		(302)	(254)	(73)	556	

[4] – Each year the College’s actuaries prepares reports for the defined benefit year end pension figures for inclusion into the financial statements. In the prior year (2021/22) two reports were provided to the College. The first report incorrectly excluded the past service cost from the actuarial report. The second report corrected the omission and included the past service cost. The 2021/22 accounts were prepared using the figures from a combination of both reports issued by the actuary resulting in inconsistencies throughout the accounts. Most notably, the 2021/22 signed accounts incorrectly excluded the 2021/22 past service cost.

[5] - The cashflow statement in 2021/22 was not numerically accurate, was inconsistent with other primary statements and excluded line items prescribed by the SFC accounts direction.

The line item in the 2021/22 cash flow statement “(Decrease)/Increase in provisions” was incorrectly recorded as an increase of £422k when it should have been recorded as a decrease of (£11k). The remaining balance should have been recorded on a separate line titled “(Decrease) in creditors falling due after more than one year” in the Financing Activities section of the cashflow statement and the amount should have been (£411k).

The cash flow statement in 2021/22 omitted the line for the pension’s adjustment less contributions. The amount totals £1,222k and should be included per the HE SORP.

Audit adjustments

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatement have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
No uncorrected disclosure misstatements.	N/A	N/A

The following corrected disclosure misstatement have been identified up to the date of this report.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Mandatory FReM and SFC accounts direction disclosures were originally not present or needed additional information. The areas impacted included: <ul style="list-style-type: none">• Performance analysis• Staff composition• Governance statement	Various	Qualitative

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the College to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the College to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



Audit work performed:

In our planning we identified the risk of fraud in operating within the funding provided, completeness of income and management override of controls as key audit risks.

During course of our audit, we have had discussions with management and those charged with governance.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the College and will reconfirm our independence and objectivity to the Audit & Risk Management Committee for the year ending 31 July 2023 in our final report to the Audit & Risk Management Committee.

Fees

The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

Auditor remuneration	£45,750
Audit Scotland fixed charges:	
• Pooled costs	£(6,710)
• Audit support costs	£1,180
• Sectoral cap adjustment	£(2,990)
Total expected fee	£33,580

There are no non-audit fees.

During the 2022/23 audit, we have been required to perform additional procedures relating to the material adjustments required to correct the prior year accounts. These procedures resulted in significant additional Manager and Partner time being required on the audit. Additional time was also required as a result of delays in providing information to us during our booking in October 2023. Following the completion of the audit, we will commence conversations with the Finance team regarding additional fees for this work. After agreement of any additional fees with the Finance team we will report back the final position to the Audit Committee.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the College's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the College, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.



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