The 2022/23 audit of

Lews Castle College

Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
July 2025

Contents

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Key messages

1 The 2022/23 annual report and accounts of Lews Castle College were qualified by the appointed external auditor. This qualification arose because the appointed auditor determined that college management had materially understated the value of its share in a joint venture in its financial statements.

2 Lews Castle College and Ceòlas Uibhist Limited entered a partnership in June 2019 to establish a charitable organisation Cnoc Soilleir Ltd (CSL) that promotes the Gaelic language, heritage, music and culture. In 2022/23, the appointed auditor agreed with college management's intention to recognise the college's investment in CSL in the college's financial statements using the equity method, in order to comply with financial accounting standards. The auditor estimated the value of the college's share at £4.7 million, representing 50 per cent of CSL's total equity at 31 July 2023. Consolidating CSL into college accounts at this valuation would have increased the net assets of the college by £4.7 million and decreased the in-year deficit by £0.032 million.

3 College management did not agree with the £4.7 million valuation of its share of CSL. College management impaired the value of its share of CSL to £1 in the financial statements for 2022/23, as the assets of CSL are restricted in nature and they did not expect to receive any future financial benefit from the joint venture. Auditors concluded that this impairment was not compliant with the financial reporting framework.

4 Lews Castle College merged with North Highland College and West Highland College to form UHI North, West and Hebrides from 1 August 2023. The appointed auditor will continue to discuss with college management how the college's investment in CSL is reported in the newly formed college financial statements.

Introduction

1. I have received the audited annual report and accounts, including the independent auditor's report, for Lews Castle College for 2022/23. I am submitting these accounts and auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

2. My report brings to the Scottish Parliament's attention that the appointed auditor has issued a qualified opinion on the financial statements and other information in the annual report and accounts of Lews Castle College for 2022/23.

Background

3. Lews Castle College (LCC) and Ceòlas Uibhist Limited (Ceòlas) entered into a joint venture arrangement on 17 June 2019 to establish Cnoc Soilleir Ltd (CSL). Ceòlas is a charitable organisation based in South Uist that promotes traditional Gaelic music, language, culture and dance.

4. CSL is a jointly controlled entity limited by guarantee that was established by the college and Ceòlas to develop and operate the Cnoc Soilleir building and facility in Dailburgh, South Uist. The building was opened in 2022 and is used by the college to deliver Gaelic language, music, archaeology and creative arts programmes that align with Ceòlas' objectives.

5. The board of CSL comprises two members from each of the boards of the parents (Ceòlas and LCC) and one independent director. The board is responsible for the leadership and governance of CSL.

6. Colleges are required to prepare financial statements in compliance with the Statement of Recommended Accounting Practice 2019 (SORP): 'Accounting for Further and Higher Education'; the Financial Reporting Standard FRS 102; and the 2022/23 Government Financial Reporting Manual (FReM). Deloitte LLP is the appointed auditor for Lews Castle College and 2022/23 was the first year of its five-year appointment.

7. The 30 April 2024 statutory deadline for laying the audited accounts in the Scottish Parliament was not met. In their annual audit report, the appointed auditor noted that additional time was required to complete the audit due to delays in the college providing information during the time originally scheduled for audit work in October 2023 (which resulted in audit work being rescheduled) and the requirement to perform additional procedures relating to material adjustments required to correct the prior year accounts.

8. The 2022/23 Report and Financial Statements for Lews Castle College was signed by the appointed auditor in December 2024 and included a qualified opinion in respect of the valuation of the joint venture.

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9. The college and the appointed auditor agreed during the audit process that the college's investment in CSL should be accounted for using the equity method. FRS 102 requires parents of a joint venture to account for investments in jointly controlled entities using the equity method. Once set up, each parent should then adjust their investment to reflect their share in the profit/loss, other comprehensive income, and equity of the joint venture.

10. In the 2021/22 audited accounts, college management included in notes to the accounts an intention to consider accounting for its investment in a joint venture, CSL, using the equity method in accordance with FRS 102 from the 2022/23 financial year.

11. The 2022/23 draft accounts prepared for audit the following year did not account for CSL on an equity accounting basis. College management and the auditor subsequently agreed that the college's interest in CSL should be accounted for using the equity method. This is because the college has voting power and board representation under the articles of association for CSL, which gives it significant control over the financial and operating policy decisions of the venture.

Auditors considered the valuation of the college's share of the net assets of CSL to be £4.7 million

12. Referring to CSL's financial statements for the year ended 31 July 2023, total funds of the joint venture at year end were £9.4 million. On this basis, the appointed auditor determined that the college should recognise its 50 per cent share of the equity of CSL (£4.7 million) in the college's consolidated financial statements. As CSL's net income in 2022/23 was £64,000, the appointed auditor concluded that the college should also recognise its 50 per cent share of this income (£32,000). This would have reduced the college's adjusted operating deficit from £330,000 to £298,000.

College management did not accept the auditor's accounting treatment of the valuation and impaired CSL to £1 in revised accounts

13. College management disagreed with the appointed auditor's accounting treatment of the valuation of CSL. College management prepared revised financial statements in which it recognised the investment in CSL using the equity method but impaired the college's share of the joint venture to £1. College management's reasons for this are:

- It has not received a share of net income or other dividend from CSL since its incorporation and does not expect to receive any in future years.
- The assets held by CSL (primarily a leasehold over the Cnoc Soilleir building and grants provided by external funders) are restricted in nature, meaning that they can only be used to further the development of the Cnoc Soilleir building. College management believes there is no reasonable expectation that the college would financially benefit from these assets in future years.
- Recognising a £4.7 million share of CSL on the college balance sheet would be misleading, as it would overstate the value of assets that the college could freely use.

14. The appointed auditor engaged with the college over a period of several months to agree the accounting treatment in the 2022/23 financial statements. College management were unwilling to value the college's share in CSL at £4.7 million, as calculated by the appointed auditor, for the reasons outlined above. The appointed auditor set materiality for the college financial statements at £154,000 on the basis of two per cent of college gross expenditure. The difference between the college's valuation of its interest in CSL and the valuation recognised by the auditor, far exceeded the materiality threshold and so the auditor concluded that this represented a material misstatement in the 2022/23 financial statements.

15. The Lews Castle College Report and Financial Statements for the Year Ended 31 July 2023 were signed by the appointed auditor on 20 December 2024. The audit opinion was modified only in respect of the accounting treatment of the joint venture:

- an unadjusted error in the financial statements due to the non-disclosure of the college's share of the equity in CSL (£4.7 million)
- a material misstatement in the 'other information' included in the report and financial statements (Performance Report and the Accountability Report) due to non-disclosure of the results of the joint venture in the annual report.

16. Two further material misstatements relating to 2022/23 and a further three prior year material misstatements were corrected by college management.

17. Colleges must comply with the Public Finance and Accountability (Scotland) Act 2000 and other financial regulations. It is important that colleges comply with applicable accounting standards to ensure that financial statements accurately report their financial position and to help them meet their legal obligations.

Lews Castle College is now part of UHI North, West and Hebrides

18. Lews Castle College merged with North Highland College and West Highland College to form UHI North, West and Hebrides. This merger was effective from 1 August 2023.

19. The appointed auditor will continue to discuss with college management how the joint venture is accounted for in the financial statements of the newly formed college.

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot

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