

The 2023/24 audit of **UHI Perth**



AUDITOR GENERAL 

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Key messages

- 1** UHI Perth failed to set a budget for the 2023/24 financial year. There is no record of a formal decision by the board of management not to agree a budget. These absences represent weaknesses in the college's financial management and governance arrangements. The lack of budget significantly limited the ability of management and the board to actively manage the in-year financial position.
 - 2** The college is facing substantial financial challenges and recorded a £2 million deficit in 2023/24. The college is now working to build capacity in its finance team and address weaknesses in its financial management, including finalising a financial recovery plan.
 - 3** A delay to the completion of the 2023/24 annual audit of UHI Perth meant that a range of issues that impacted the college in spring 2025 were reported in the 2023/24 Annual Audit Report. These included the resignation of senior staff and board members, errors in the 2024/25 budget leading to a request for additional liquidity support from the Scottish Funding Council, and the administration of the college's subsidiary. These issues will be covered in more detail in the 2024/25 annual audit of UHI Perth.
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Introduction

1. I have received the audited annual report and accounts including the independent auditor's report for UHI Perth for 2023/24. 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 the absence of a budget for UHI Perth for the 2023/24 financial year. It also highlights issues that have occurred in the period between the end of the 2023/24 financial year and the completion of the audit of the 2023/24 accounts. These issues will be covered in more detail in the 2024/25 annual audit of UHI Perth.
3. The auditor issued an unqualified opinion on the annual report and accounts of UHI Perth for 2023/24.

Background

4. UHI Perth is part of the University of the Highlands and Islands (UHI). UHI operates as a Regional Strategic Body (RSB) for several further and higher education institutions across the Highlands and Islands. It is responsible for the strategic oversight and funding arrangements for those institutions. UHI Perth's board of management is responsible for the financial management of the college.
5. UHI Perth has operated with significant financial pressures for some time, with deficits recorded over several years. In 2023/24, the college recorded a deficit **adjusted operating position (AOP)** of £2 million.

A college's **adjusted operating position (AOP)** reflects its underlying operating performance after allowing for material one-off or distorting matters outside its control (eg, pension valuations). This helps to assess a college's underlying financial strength and to provide figures which are readily comparable among colleges.

6. The college did not agree a budget for 2023/24. This report looks at the reasons for this and considers the impact on the college's financial position.
7. The college has taken steps to address the financial pressures it faces. These include scrutiny of vacancies and restricting recruitment, a review of

evening opening hours, and a review of estates strategy and student services. But the college continues to experience financial pressures.

8. Completion of the 2023/24 accounts was delayed. The auditor reported this was due to adjustments in the prior year and quality issues with the draft accounts. There were also changes and capacity challenges within the finance team, meaning the college was unable to service the audit in the original timescales. This meant that emerging issues identified in spring 2025 were referenced in the 2023/24 Annual Audit Report and these will be covered in more detail in the 2024/25 Annual Audit Report. This includes errors in the 2024/25 budget, the need for liquidity support from the Scottish Funding Council (SFC), the college subsidiary entering administration, and the resignation of senior staff and board members.

9. We have prepared this report based on the auditor's findings, documentation held by the college and information provided by current college staff.

The 2023/24 audit of UHI Perth

There was no clearly documented decision on the absence of a 2023/24 budget for UHI Perth

10. UHI Perth did not agree a budget for the 2023/24 financial year. Some initial work began in February 2023 to gather information for the budget. College management asked budget-holders to supply information to inform the preparation of a draft budget. The college is unable to explain what happened to that information and there is no evidence of it being collated or summarised.

11. In June 2023, the college board approved an enhanced voluntary severance scheme. It also agreed to develop a business case for compulsory redundancies, should the required savings not be achieved through the voluntary scheme. Analysis of board papers suggests the board anticipated that a budget would be produced following this restructuring.

12. The mid-range forecast presented to the college's finance and resource committee in September 2023, projected a £2.9 million AOP deficit for 2023/24. The committee was informed that it may need to consider a two-year solution to break even. In late 2023, the college put in place five workstreams intended to achieve financial sustainability. These covered:

- academic reorganisation
- professional services reorganisation
- estates
- continuous improvement
- additional profitable income generation.

The workstreams were intended to identify savings or potential income generation opportunities with an overall objective to achieve a break-even position by July 2025. The workstreams were ongoing throughout 2023/24 and no budget was put in place during the financial year.

13. The board's view on the absence of a budget is not documented in the minutes of relevant meetings. There is no evidence of the board taking a formal decision on whether to approve a budget.

14. The college expected restructuring plans and the workstreams initiated in late 2023 ([paragraphs 11. and 12.](#)) to have financial implications for any budget that would be set. Analysis of board papers shows that during 2023/24, board agendas moved towards discussions on the workstreams and away from agreeing the 2023/24 budget. We also know that capacity issues in the college's finance team restricted their ability to work on a budget. Current college staff suggested to us that the college prioritised resourcing work to address financial sustainability over setting an in-year budget for 2023/24.

15. Board papers show members discussed the possibility of agreeing a deficit budget and UHI confirmed it was an option that it would discuss with the SFC. The board wanted to achieve a balanced budget. There was a degree of reluctance to agree a deficit budget and uncertainty over whether the SFC would permit it. It is unclear from the board papers whether there was a resolution to those discussions. This was resolved for the 2024/25 financial year, for which the board did approve a deficit budget.

16. UHI Perth's appointed auditor informed the board that the preparation and monitoring of a budget is a crucial element of monitoring the financial position of the college. The auditor recommended that the college produce and monitor a budget each financial year.

The college monitored its financial position, but it was affected by capacity issues in its finance team

17. Although there was no budget for 2023/24, the college still monitored its financial position. The college produced forecasts that indicated a likely deficit for 2023/24, and these were presented to the board. The college monitored its financial position against the prior year outturn. The board received management accounts, which showed year to date spend compared with the prior year outturn and separately in comparison to forecasts made by the college.

18. The board did not receive a financial outlook to the end of the year, as part of the management accounts being presented to the board in June 2024. This was attributed to capacity issues within the college's finance team. The papers note that the outlook will be prepared as soon as possible, but the extent of the delay is unclear. These capacity issues in the finance team were also noted as contributing to delays to starting work on the 2024/25 budget. Finance team capacity has been an ongoing issue at UHI Perth for several years. It has been raised by auditors in the college's annual audit reports going back to 2018, but it has not been fully addressed by the college.

19. Recruitment and retention challenges mean that the college has a shortage of capacity and information for the board has been delayed as a result. It took longer than anticipated for the college to fill the Head of Finance post in 2024, alongside turnover of other finance staff during this

period. This reduced capacity is reflected in the absence of a budget, but also in monitoring where updated forecasts for the rest of the year have been delayed. UHI Perth's appointed auditor has highlighted that the high turnover in the finance function in 2023/24 and into 2024/25 creates a risk that knowledge gaps appear.

20. In June 2024, the board received an update on recruitment plans to increase finance team capacity. The board agreed that the capacity issues in the finance team should be addressed, and the principal should ensure this was fully implemented. It is not clear how the board expected to be updated or monitor progress around this.

The college had a deficit of £2 million in 2023/24

21. UHI Perth's AOP for 2023/24 was a deficit of £2 million.

22. One factor behind this is that the undergraduate higher education student headcount was lower than anticipated. The college's funded target was 1,674 undergraduate full-time equivalents (FTEs). The actual figure was 1,564 undergraduate FTEs in 2023/24. This resulted in an income shortfall versus target of approximately £0.5 million.

23. The college also reported that the staff pay award resulting from national bargaining, was higher than planned for, further contributing to the deficit position. It started a restructuring process that resulted in accruals for unbudgeted voluntary severance and pension strain payments. In addition, the college's Air Services Training subsidiary made a £0.3 million loss.

A delay in completion of the 2023/24 annual accounts for UHI Perth meant issues arising in 2024/25 were included in the annual audit report

24. The completion of the 2023/24 annual audit of Perth was delayed ([paragraph 8](#)). Before the accounts were finalised, several further issues arose during the 2024/25 financial year.

25. UHI Perth identified around £1 million of errors in the 2024/25 budget. The college also identified errors in cashflow calculations. As a result of both the errors to the budget and the cashflow calculations, the college has requested around £1 million of additional liquidity support. SFC approval of that request is subject to the college preparing a financial recovery plan. The request is in addition to £1.5 million of liquidity funding already agreed with the SFC to fund the deficit 2024/25 budget agreed by the college board. UHI has raised concerns with the college following the identification of these errors. It has asked the college to prepare a financial recovery plan and to put in place fortnightly financial recovery meetings to be chaired by UHI.

26. UHI Perth's subsidiary entered administration in April 2025. Air Service Training (AST) was a subsidiary wholly owned by the college. It delivered specific aspects of aircraft maintenance certification as part of the BSc (Hons.) aircraft maintenance engineering and management programme.

27. Several senior staff resigned from the college. The director of finance resigned in April 2025, and the principal resigned in May 2025. Five members of the board of management, including the chair, also resigned between April and May 2025. One board member who resigned in April 2025, was subsequently re-appointed in June 2025.

28. These developments and their impact will be covered as part of the forthcoming 2024/25 annual audit, and I will consider the appointed auditor's findings before deciding on further reporting on the college.

The college is beginning to take action to address weaknesses it has identified in its financial management

The budget-setting process was reinstated for 2024/25 and 2025/26

29. UHI Perth has taken steps to reinstate the budget-setting process. Its 2024/25 budget was delayed due to issues with capacity in the finance team but was agreed by the board in December 2024, five months into the financial year. A baseline budget for 2025/26 was provisionally agreed by the board in June 2025 with final approval subject to the development of the financial recovery plan.

A financial recovery plan is being finalised

30. The college is now finalising a financial recovery plan. UHI initially asked for sight of a financial recovery plan in May 2024, in response to the college's request for a loan at that time. In December 2024, the college's board agreed to ask for a financial recovery plan to be developed in response to agreeing a deficit budget for 2024/25. Following the college's request for around £1 million of additional liquidity funding in 2025, UHI wrote to the college board on 2 April 2025 to also request a recovery plan.

31. UHI has asked that the plan provides details of current cashflow, pressures, risks and recovery planning, together with detailed actions and timescales. It also asks that the plan makes clear where this includes use or anticipated use of SFC funding and an approved deficit budget.

32. The financial recovery plan was agreed by the college board in August 2025, subject to an amendment to the cashflow. Following this amendment, the report was submitted to UHI and will be subject to subsequent consideration by the SFC. UHI appointed a consultant to support the college with the development of the plan.

33. The college's board has established a new committee to monitor the progress of the financial recovery plan and provide it with monthly reports.

It has also asked the internal auditor to review and report on the financial recovery plan.

The college's internal auditor is reviewing budgetary controls

34. UHI Perth's internal auditor is progressing a review of budgetary and other financial controls, due to complete in September 2025. This work will address a recent request from the college board to review the financial information provided to the board.

35. The work is intended to:

- review what the college requires from the finance function and the statutory and regulatory requirements
- identify necessary actions around budget-setting and monitoring and any lessons learned from this
- identify areas for improvement in the financial systems and processes
- examine the management and governance arrangements for reporting the financial position to the senior leadership team, committees and the board
- recommend an action plan for the finance team, identifying skills gaps to be addressed.

Recruitment is under way to fill key senior roles

36. UHI Perth has taken steps to fill senior management and board vacancies following resignations in 2025 ([paragraph 27](#)). The college appointed a new interim principal in May 2025, and this appointment has been extended to the end of July 2026. The college also appointed an interim director of finance in June 2025. UHI's vice-principal for strategic projects joined the UHI Perth senior leadership team in a temporary, part-time advisory role for the month of June. The college is making changes to its leadership structure and is in the process of recruiting a new deputy principal and a chief financial officer to support this.

37. The board of management appointed an interim chair in April 2025, and this appointment has been extended to the end of July 2026. New appointments have been made to the board, subject to approval by UHI. The board has also appointed a new chair of the Audit Committee.

Conclusion

38. UHI Perth failed to produce a budget for 2023/24 and ultimately recorded a deficit of £2 million in that year. This is a matter of significant concern and served to undermine the college's financial management and governance arrangements. The reinstatement of the college's budget-setting process for 2024/25 was a necessary and fundamental step. This should facilitate stronger financial control, clearer accountability, more informed decision-making and increase the likelihood of effective use of resources.

39. The rationale for the absence of a 2023/24 budget for UHI Perth is unclear in the absence of a clearly documented decision on the matter. All colleges should ensure clear and informed decision-making and accurate recording of decisions taken at all levels, including the board.

40. Budgets are a fundamental part of an organisation's financial control and governance arrangements. They help inform decision-making and contribute to the efficient use of resources. The absence of a budget and regular reporting to college management and the board of in-year and forecast outturn against that budget, meant that there was no clear mechanism for identifying and remedying emerging issues or for holding college management to account for variances. This was particularly the case during the college's financial challenges.

41. Although UHI Perth has started to address weaknesses in the college's financial management, the college should continue to work with UHI and the SFC to strengthen its financial management and governance arrangements. It should also continue to finalise and implement a robust and deliverable financial recovery plan to meet the needs of learners and use public money effectively. I will keep the college's progress in these matters under close review.

The 2023/24 audit of UHI Perth



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