



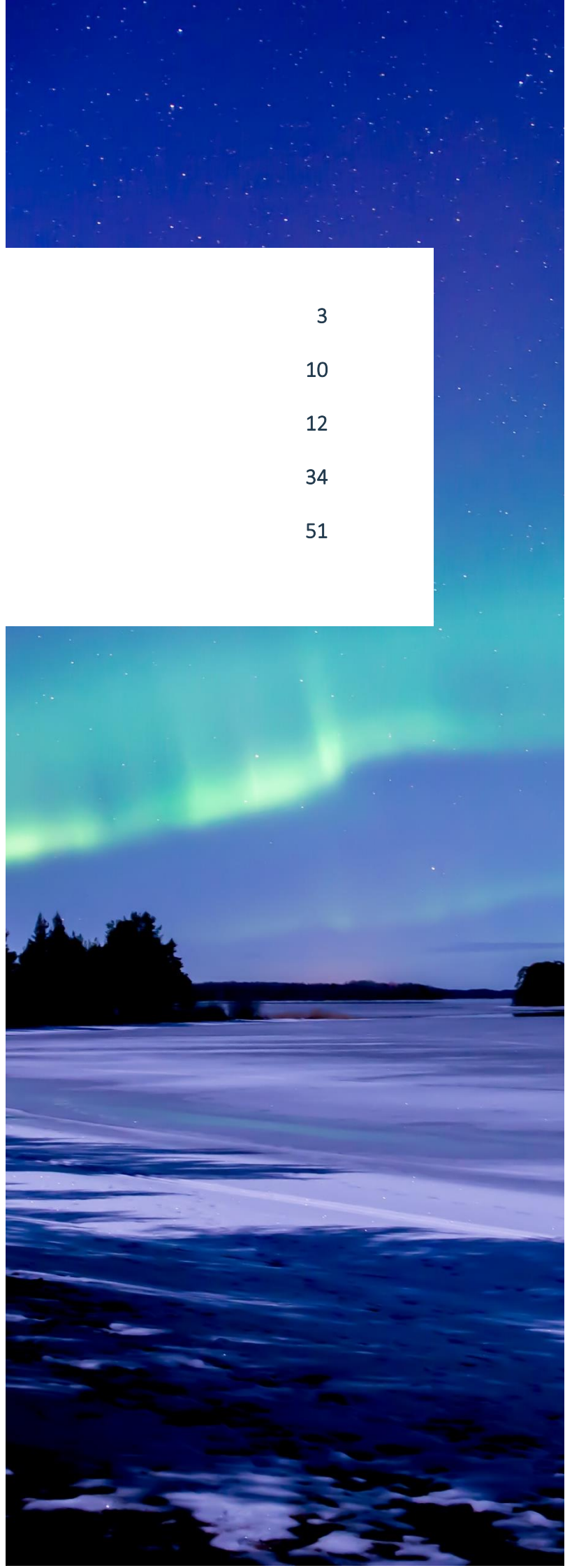
# Ayrshire College

2024/25 Annual Audit Report to the Board and the  
Auditor General for Scotland

December 2025

## Table of Contents

Key messages	3
Introduction	10
Financial statements audit	12
Wider scope of public audit	34
Appendices	51



## Key messages

### Financial statements audit

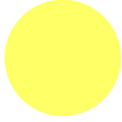
<b>Audit opinion</b>	<p>Our work is complete and we report unqualified opinions within our independent auditor's report.</p>
<b>Audit approach</b>	<p>Our audit approach has been based on gaining a thorough understanding of the College's control environment and has been risk based. This included:</p> <ul style="list-style-type: none"><li>• An evaluation of the College's internal control environment; and</li><li>• Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to our key audit risks.</li></ul> <p>We have not altered our audit plan.</p>
<b>Key audit findings</b>	<p>The College had sufficient administrative processes in place to prepare the annual report and accounts.</p> <p>We have obtained sufficient evidence in relation to the significant audit risks identified in our audit plan.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
<b>Audit adjustments</b>	<p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial.</p> <p>Two adjustments have been identified and made through the course of the audit. These were:</p> <ul style="list-style-type: none"><li>• Re-classification of a provision of £0.5 million for PFI related costs to a contingent liability.</li></ul>


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	<ul style="list-style-type: none"><li>• An adjustment to the transfer between the revaluation reserve and income and expenditure account of £0.2 million</li></ul> <p>We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.</p> <p>Details of the adjusted misstatements are included at Appendix 2.</p> <p>We did not identify any unadjusted misstatements.</p>
<b>Internal controls</b>	<p>We applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identify any control weaknesses, we include these in this report.</p> <p>We identified no significant weaknesses in accounting and internal control systems during our audit.</p>

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## Wider scope of public audit

<p><b>Financial Management</b></p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p><b>Auditor judgement</b></p> <p>Risks exist to the achievement of operational objectives</p>	
	<p>The College is generally well managed financially but faces unprecedented and continuing challenges resulting from public sector funding levels and pressures on staff pay.</p>	
	<p>The College has reported an operating deficit of £3.4 million for the year ended 31 July 2025. This is about half the operating deficit recognised last year of £7.3 million. The decrease between the years was a result of de-recognising of £5.1 million of funding in relation to the job evaluation cost in 2023/24 which was not required in 2024/25.</p>	
	<p>The College budgeted for a deficit of £1.7 million, the actual deficit of £3.4 million was £1.7 million higher primarily due to the impact of increased FRS102 pension costs and job evaluation costs, offset by a lower than budgeted operating financial deficit and the release of previously accounted for PFI provision. Several of these factors were excluded from the budget as they were not known at the point at which it was initially prepared and approved.</p>	
<p>The cash held by the College was £4.1 million at year end, with £1.0 million held for trading purposes with the remaining £3.1 million held for other purposes including capital and strategic projects and the PFI contingent liability. The cash balance has significantly decreased in 2024/25 from £11 million in the prior year due to several payments being made during 2024/25 such as pay awards and the Kilwinning Campus contract termination payment.</p>		

<b>Financial Sustainability</b> Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	<b>Auditor judgement</b>	
	Significant unmitigated risks affect achievement of corporate objectives	
	Notable risks exist relating to ongoing financial pressures and given the fragility of future income/funding position. This is a risk to optimising successful financial sustainability and to the achievement of operational objectives.	
	The financial position of the College is challenging as it is forecasting an operating cash deficit over the next three-year period of £4.3 million. This deficit incorporates the impact a reduction of £0.7 million per annum from 2026-27 in the level of the SFC core teaching grant. This reduction is due to proposed changes in the SFC funding model that are yet to be confirmed.	
	There remain a number of forecasting uncertainties in relation to staff pay awards, estates management funding, inflation and sector-wide issues which are contributing to increased financial risk and the unpredictability of the long-term financial position of the College.	
	The College estimates that the revision to current SFC funding model, which has changed the parameters of and the values associated with credits, will have a decrease in funding of around £0.7 million a year from 2026/27 to 2028/29. This will require a significant savings programme to be implemented.	
	The College has a high-level Infrastructure Strategy 2024-27 to address emerging and future needs. One out of three of the College's Campus is operated under an NPD contract and thus the maintenance of the infrastructure lies with the operators. The College has identified backlog maintenance totalling £6.5 million across their Dam Park, Riverside and Aeronautical buildings at the Ayr campus to ensure the infrastructure remains fit for purpose.	

**Vision, Leadership and Governance**

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

**Auditor judgement**

Effective and appropriate arrangements are in place



The College has a clear vision and a Statement of Ambition 2030 in place to support it, with a number of policy documents to support its delivery.

Governance arrangements at the College were found to be good.

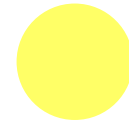
Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

**Use of Resources to Improve Outcomes**

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

**Auditor judgement**

Risks exist to achievement of operational objectives



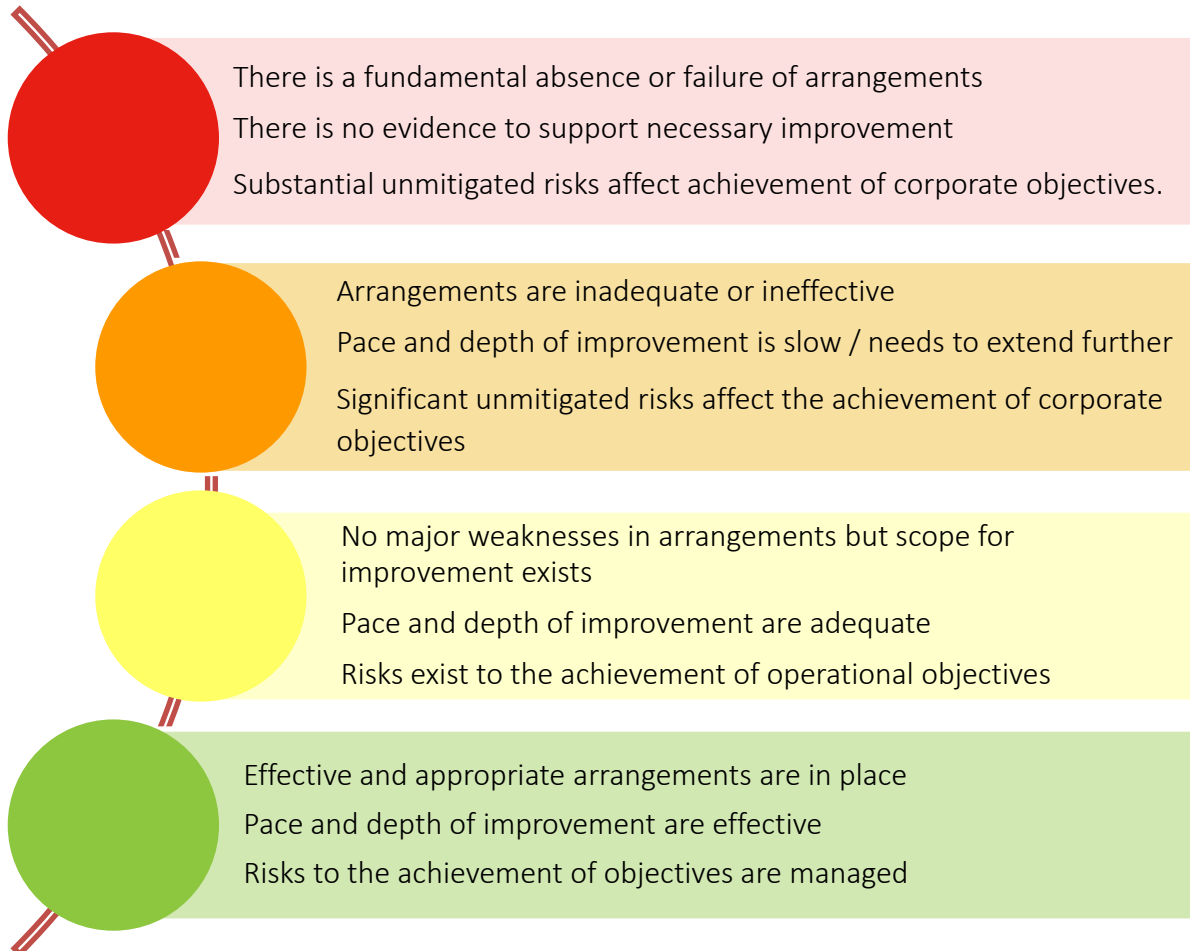
2024/25 was another challenging year, however the College achieved its credit target for the second consecutive year.

The College reports on key measures which covers student data. The College's performance against key performance indicators for academic year 2024/25 shows that for the student credits target of 111,480 was achieved.

The College has included KPI information in its annual report and accounts together with explanatory narrative. The Board is now receiving a focused set of indicators with accompanying explanations presented at the relevant Committees to support them in making informed decisions.

## Definitions

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



## Introduction

### Scope of audit

The annual external audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in Audit Scotland's Code of Audit Practice. [Code of Audit Practice 2021 | Audit Scotland](#)

We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit.

### Responsibilities

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

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

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

### Auditor independence

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

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

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

### Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In

this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

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

## **Openness and transparency**

This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Financial statements audit

### Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	<p>The annual report and accounts were considered by a joint Audit and Risk / People, Infrastructure and Finance Committee on 18 November 2025 and were approved by the Board on 11 December 2025.</p> <p>We have issued unqualified opinions in our independent auditor's report.</p>
Going concern basis of accounting	<p>When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Board's functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Board.</p>	<p>We reviewed the financial forecasts for 2025/26. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.</p>
Regularity of income and expenditure	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We have not identified any instances of irregular activity.</p> <p>In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable</p>

Opinion	Basis for opinion	Conclusions
		enactments and guidance issued by the Scottish Ministers.
<p>Opinions prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> <li>• The audited part of the Remuneration and Staff Report</li> <li>• Performance Report</li> <li>• Governance Statement</li> </ul>	<p>We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• the audited parts of the Remuneration and Staff Report have been properly prepared.</li> <li>• the information given in the performance report is consistent with the financial statements and has been properly prepared.</li> <li>• the information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through our audit.</li> </ul>

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>• adequate accounting records have not been kept; or</li> <li>• the financial statements and the audited parts 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.</li> </ul>	We have no matters to report.

## An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in June 2025. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. This includes:

- An evaluation of the College’s internal control environment; and
- Substantive testing on significant transactions and material account balances, including procedures outlined in this report in relation to our key audit risks.

## Quality indicators

We have applied a suite of quality indicators to assess the reliability of the College's financial reporting and response to the audit.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Quality and timeliness of draft financial statements	Mature	Draft financial statements were received on date agreed.
Quality of working papers provided and adherence to timetable	Mature	The work papers were provided before we started the audit and were easy to follow. The audit was able to start on time as planned. Audit requests / inquiries were turned around promptly and accurately.
Timing and quality of key accounting judgements	Mature	The audit team and College's finance team liaised early on the key judgements required for the financial statements preparation.
Access to finance team and other key personnel	Mature	The finance team were available throughout audit and responded quickly to queries raised by audit team.
Quality and timeliness of the <ul style="list-style-type: none"> <li>• audited part of the Remuneration and Staff Report</li> <li>• Performance Report</li> <li>• Governance Statement</li> </ul> As well as the quality and timeliness of supporting	Mature	The annual report and all supporting workpapers were received in a timely manner by the date agreed. Their quality was good.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
working papers for those statements.		
Volume and magnitude of identified errors	Mature	Minimal errors have been identified from work performed. Two audit adjustment were identified, in addition to minor disclosure and presentational adjustments.

## Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures are designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we considered the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

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

The table below summarises each significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

Risk area	Financial statement / Assertion level risk	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Financial statement	Yes	Assess design & implementation	N/A	We have not identified any indication of management override during our testing.
Fraud in revenue recognition	Assertion level	Yes	Assess design & implementation	Low	We have gained reasonable assurance on the accuracy and occurrence of income and we are satisfied that it is fairly stated in the financial statements.
Fraud in non-pay expenditure recognition	Assertion level	Yes	Assess design & implementation	Low	We have gained reasonable assurance over completeness of expenditure.
Valuation of land and buildings	Assertion level	No	Assess design & implementation	High	We have gained reasonable assurance over valuation of land and buildings.
Pension asset / liability	Assertion level	No	Assess design & implementation	High	We have gained reasonable assurance on the treatment of pension asset and pension liability.
PFI	Assertion level	No	Assess design & implementation	Low	We have gained reasonable assurance on the treatment of the PFI final payment.

## Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
<p><b>Significant risk description</b></p>	<p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p><b>Risk of material misstatement: Very High</b></p>
<p><b>How the scope of our audit responded to the significant risk</b></p>	<p><b>Key judgement</b></p> <p>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals.</li> <li>• Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals.</li> <li>• Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting</li> </ul>

Risk area	Management override of controls
	<p>documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the College’s journals policy.</p> <ul style="list-style-type: none"> <li>• Gaining an understanding of the key accounting estimates and critical judgements made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud.</li> <li>• Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<b>Key observations</b>	<p>We have not identified any indication of management override of controls, or of bias in key judgements made by management.</p>

## Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
<p><b>Significant risk description</b></p>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the College could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>In respect of the College's income for Scottish Funding Council (SFC) grant funding, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate these revenue streams. The risk of fraud in relation to revenue recognition is however present in all other revenue streams.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Revenue (occurrence): Very High</b></p>

Key risk area	Fraud in revenue recognition
<p><b>How the scope of our audit responded to the significant risk</b></p>	<p><b>Key judgements</b></p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the College’s systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements.</li> <li>• Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems.</li> <li>• Obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.</li> <li>• Substantively testing material income streams using analytical procedures and sample testing of transactions recognised for the year.</li> </ul>
<p><b>Key observations</b></p>	<p>£0.3 million of SFC funding has been recorded as revenue which may not be in line with the specific grant funding conditions. However, for accounting purposes we are satisfied that this is an appropriate treatment. The value is not material, so we do not consider that this has an impact on our opinion on regularity which is based on an assessment of whether or not in all material respects income or expenditure has been applied in accordance with applicable enactments and guidance issued by Scottish Ministers.</p> <p>We have gained reasonable assurance on the occurrence of income and we are satisfied that it is fairly stated in the financial statements.</p>

Key risk area	Fraud in non-pay expenditure
<p><b>Significant risk description</b></p>	<p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end leading to a material misstatement in the reported financial position.</p> <p>In respect of the College’s expenditure for payroll, however, we do not consider the expenditure recognition risk to be significant due to a lack of incentive and opportunity to manipulate expenditure of this nature. The risk of fraud in relation to expenditure recognition is however present in all other expenditure streams.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Expenditure (completeness): Very High</b></p> <p><b>Accruals (existence and completeness): Very High</b></p>

Key risk area	Fraud in non-pay expenditure
<p><b>How the scope of our audit responded to the significant risk</b></p>	<p><b>Key judgements</b></p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the College’s systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements.</li> <li>• Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems.</li> <li>• Obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.</li> <li>• Substantively testing material expenditure streams using analytical procedures and sample testing of transactions recognised for the year.</li> <li>• Reviewing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.</li> </ul>
<p><b>Key observations</b></p>	<p>We have gained reasonable assurance over the completeness of expenditure and completeness and existence of accruals and are satisfied that expenditure is fairly stated in the financial statements.</p>

Key risk area	Valuation of land and buildings (key accounting estimate)
<p><b>Significant risk description</b></p>	<p>The College held land and buildings with a net book value of £119.6 million at 31 July 2025, with full external valuations last undertaken as at 31 July 2023 and have undertaken external desktop valuations annually since the last full revaluation.</p> <p>The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of valuers and the methods, assumptions and source data underlying the fair value estimates.</p> <p>These valuations represent a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurements and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of land and buildings as a significant risk.</p> <p>We will further pinpoint this risk to specific assets, or asset types, on receipt of the draft financial statements and the year-end updated asset valuations to those assets where the in-year valuation movements fall outside of our expectations.</p> <p><b>Inherent risk of material misstatement:</b>  <b>Land and Buildings (valuation): High</b></p>
<p><b>How the scope of our audit responded to the significant risk</b></p>	<p><b>Key judgements</b></p> <p>Colleges are required to ensure fixed assets are held at a carrying amount that does not differ materially from the current value at 31 July, alongside appropriate additional disclosures.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work.</li> <li>• Evaluating the competence, capabilities and objectivity of the valuation expert.</li> <li>• Considering the basis on which the valuation is carried out and challenging the key assumptions applied.</li> </ul>

<b>Key risk area</b>	<b>Valuation of land and buildings (key accounting estimate)</b>
	<ul style="list-style-type: none"> <li>• Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data.</li> <li>• For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding.</li> <li>• Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.</li> </ul>
<b>Key observations</b>	In 2024/25 a desktop valuation was undertaken for all the College's land and buildings. We have gained reasonable assurance over valuation of land and buildings.

<b>Key risk area</b>	<b>Pension net asset valuation (key accounting estimate)</b>
<b>Significant risk description</b>	<p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates.</p> <p>This represents a key accounting estimate made by management within the financial statements due to the size of the values involves, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk.</p>

<b>Key risk area</b>	<b>Pension net asset valuation (key accounting estimate)</b>
	<p><b>Inherent risk of material misstatement:</b></p> <p><b>Pension net asset (valuation): High</b></p>
<b>How the scope of our audit responded to the significant risk</b>	<p><b>Key judgements</b></p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Evaluating management’s process for the calculation of the estimate, the instructions issued to management’s expert (the actuary) and the scope of their work.</li> <li>• Evaluating the competence, capabilities and objectivity of the actuary.</li> <li>• Reviewing the reasonableness of key actuarial assumptions applied by reference to comparative and market data.</li> <li>• Reviewing the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate.</li> <li>• Evaluating whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements.</li> <li>• Ensuring pension valuation movements for the year and related disclosures have been correctly disclosed.</li> </ul>
<b>Key observations</b>	We have gained reasonable assurance over valuation of pensions.

<b>Key risk area</b>	<b>Purchase of PFI Asset</b>
<b>Significant risk description</b>	<p>The College’s PFI contract for the Kilwinning Campus expired on 13 June 2025. This is one of the first PFI assets transferring back to the public sector in Scotland and consideration of the legal and accounting requirements are likely to be complex.</p> <p>The Board purchased the facility at the end of the PFI contract from its provider - KE Projects. The initial associated cost has been included within the College’s 2023/24 financial statements as a provision of £2.2 million. However, this amount was subject to</p>

<b>Key risk area</b>	<b>Purchase of PFI Asset</b>
	<p>further review of the PFI contract and negotiations between the parties.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Expenditure (completeness): High</b></p>
<b>How the scope of our audit responded to the significant risk</b>	<p><b>Key judgements</b></p> <p>This is a one-off and unusual transaction for the College.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Reviewing the controls in place to ensure that the transaction is accounted for in line with the relevant documentation and agreements made by the College and PFI provider.</li> <li>• Examining the accounting, classification and disclosure of the transaction in the financial statements.</li> </ul>
<b>Key observations</b>	<p>The College paid £1.7 million for their PFI asset in June 2025.</p> <p>We have identified that the full value of the provision held in 2023/24 for the purchase of this PFI asset was not fully reversed in 2024/25. The purchase reversed out the amount relating to the invoice amount, and the remainder of £2.2 million was kept as a provision of £0.5 million at the year end to cover hypothetical cost of VAT and other potential PFI related costs. During the audit we established that the criterion of probability has not been met to recognise this as a provision, therefore the College de-recognised it and instead disclosed as a contingent liability in the accounts. We are satisfied the corrected classification is appropriate.</p> <p>We have gained reasonable assurance over the PFI purchase.</p>

## Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Board and the needs of users. We reviewed our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality for the College’s financial statements was £1.060 million. On receipt of the 2024/25 unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment. We consider that our updated assessment has remained appropriate throughout our audit.

	College £
<b>Overall materiality for the financial statements</b>	1,060,000
<b>Performance materiality (75% of materiality)</b>	790,000
<b>Trivial threshold</b>	53,000

**Materiality**

Our assessment is made with reference to the College’s gross expenditure. We consider this to be the principal consideration for users of the financial statements when assessing financial performance.

Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2023/24 unaudited annual report and accounts. We assessed materiality on this basis at the planning stage of the 2024/25 audit and then reassessed on receipt of the draft 2024/25 financial statements but determined that this still represented an appropriate materiality figure to be applied.

In performing our audit, we apply a lower level of materiality to the audit of the Remuneration & Staff Report and Related Parties disclosures.

For the Remuneration & Staff Report we consider any errors which result in a movement between the relevant bandings on the disclosure table to be material.

For Related Party transactions, in line with the standards, we consider the significance of the transaction with regard to both the Board and the counter party, the smaller of which drives materiality considerations on a transaction-by-transaction basis.

### Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

### Trivial misstatements

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

## Group audit

As group auditors under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and regarding the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

For periods commencing on/after 15 December 2023 the auditing standard for group engagements has been revised. The key changes that are reflected in the audit findings have been outlined below:

- Revisions to the definitions of a group and component now encompass a wider range of group scenarios. This means that a single legal entity could fall under the scope of the group ISA based on its internal structure, while multiple legal entities may sometimes be defined as a single component.
- There is increased leadership responsibilities and involvement requirements for the group engagement leader, particularly when component auditors are utilised.
- In the UK, there is a specific requirement for all component auditors to confirm their ability and willingness to comply with the FRC's Ethical Standard, regardless of their local jurisdiction.
- The analytical/desktop review designation has been removed from the scope of procedures performed over a component in response to risk.

## Group audit findings

The following table sets out the components within the group and our audit findings in respect of each component.

Component	Scope	Planned audit approach	Audit findings
Ayrshire College	Full Scope	Full scope statutory audit as set out in this annual audit report	As set out in this annual audit report
SAI Aerospace Training Ltd	None	No procedures planned	Not applicable

**Full Scope:** Design and perform further audit procedures on the entire financial information of the component.

**Specific Scope:** Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures.

**None:** No further audit procedures required.

### Risks at the component-level

The risks identified at the College are set out in this report. There are no other risks identified in any of the other component above in respect of the Group audit

Note that a component may require a statutory audit under UK or overseas company law irrespective of whether an audit is required for group reporting purposes. Management should therefore satisfy themselves that all UK and overseas company law requirements are adhered to on a company-by-company basis.

## Audit differences

Audit differences identified during the audit are detailed in Appendix 2.

We also identified disclosure and presentational adjustments during the audit, which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

We did not identify any unadjusted misstatements during the audit.

## Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these

at Appendix 3. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

## Other communications

### Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	<p>£0.3 million of SFC funding has been recorded as revenue which may not be in line with the specific grant funding conditions. However, for accounting purposes we are satisfied that this is an appropriate treatment. The value is not material so we do not consider that this has an impact on our opinion on regularity which is based on an assessment of whether or not in all material respects income or expenditure has been applied in accordance with applicable enactments and guidance issued by Scottish Ministers.</p> <p>There were no other significant management judgements which required additional audit work, where there was disagreement over the judgement or where the judgement is significant enough that requires reporting, in addition to those reflected in this report.</p>
Prior year adjustments identified	There were no prior year adjustments identified.
<p>Concerns identified in the following:</p> <ul style="list-style-type: none"> <li>• Consultation by management with other accountants on accounting or auditing matters</li> <li>• Matters significant to the oversight of the financial reporting process</li> </ul>	No concerns were identified in relation to these areas.

Area of focus	Audit findings and conclusion
<ul style="list-style-type: none"> <li>Adjustments / transactions identified as having been made to meet an agreed system position / target</li> </ul>	

### Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.

The accounting policies, which are disclosed in the financial statements, are in line with the FE SORP and are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

### Presentation and disclosures

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

### Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts and accruals. Other than asset valuations and pension asset / liability we have not determined the accounting estimates to be significant. See the section above on “Significant risks at the assertion level for classes of transaction, account balances and disclosures” for detailed findings in relation to key accounting estimates.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall, we concluded that those key accounting estimates were balanced and appropriate.

### **Fraud and suspected fraud**

We have previously discussed the risk of fraud with management and the Audit and Risk Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

### **Non-compliance with laws and regulations**

As part of our standard audit testing, we have reviewed the laws and regulations impacting the College. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

### **Written representations**

We issued the final letter of representation to the Board to sign at the same time as the financial statements were approved.

### **Related parties**

We are not aware of any related party transactions which have not been disclosed.

### **Confirmations from third parties**

All requested third party confirmations have been received.

## Wider scope of public audit

Public sector 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 areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

## Financial management

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

### Auditor judgement

Risks exist to the achievement of operational objectives



## Financial performance 2024/25

The College reports an operating deficit of £3.4 million for the year ended 31 July 2025. This is about half the operating deficit recognised last year of £7.3 million, which was a result of de-recognising of £5.1 million of funding in relation to the job evaluation cost in 2023/24 which was not required in 2024/25.

The Board of Management approved a financial deficit budget of £1.7 million after adjusting the operating position for non-cash items that are out with the control of the College, such as net depreciation. The year end College financial statement show a financial deficit of £3.4 million a negative movement of £1.7 million. The table below provides a summary of the main variances:

	Variance £m
SFC Other Grants	0.196
Tuition Fees	(0.239)
Education contracts	0.110
Commercial income	(0.228)
Other operating income	0.490

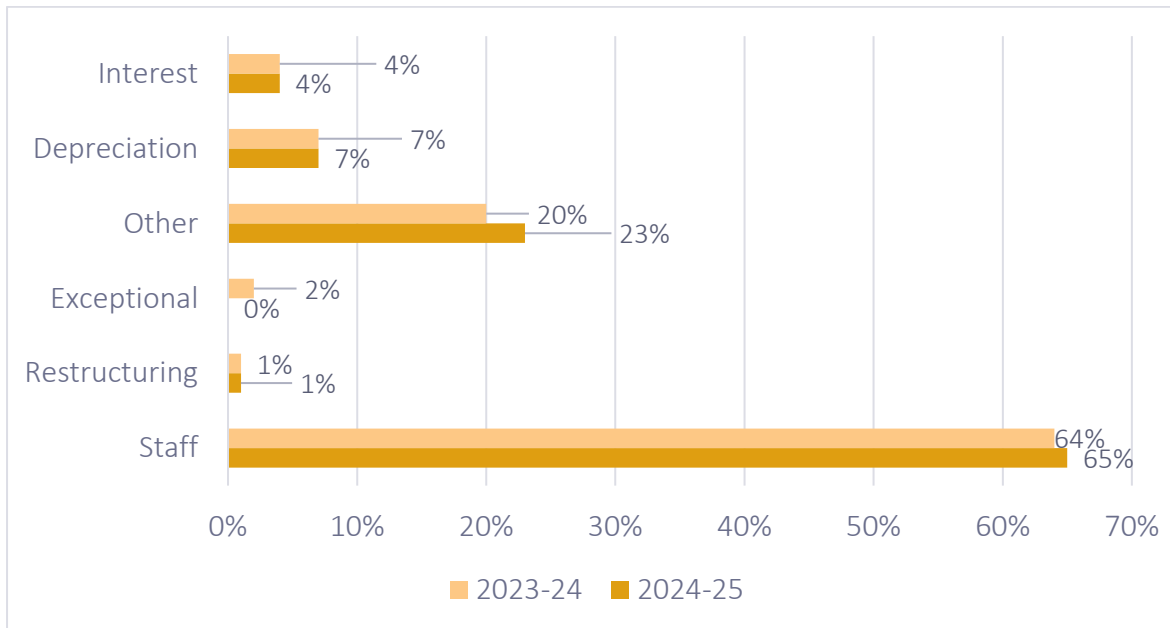
	Variance £m
<b>Improved trading income position</b>	<b>0.329</b>
Salary costs	0.307
Other operating expenditure	<b>(0.182)</b>
Property costs	0.124
<b>Improved trading expenditure position</b>	<b>0.234</b>
<b>Overall improved trading position</b>	<b>0.563</b>
Planned increased in strategic project costs	<b>(0.299)</b>
Voluntary severance payments	<b>(0.384)</b>
FRS102 pension movements	<b>(1.238)</b>
Job evaluation costs	<b>(0.858)</b>
PFI provision release	0.522
<b>Overall variance compared to budget</b>	<b>(1.694)</b>

Some of the above items were excluded from the initial 2024/25 budget as they were not known at the point at which it was initially prepared and approved by Board of Management in June 2024.

The College's main source of income continues to be grant funding from the SFC (87% of total income in 2024/25).

The key items of expenditure are shown below and how they compare to the prior year.

**Exhibit 1: Key expenditure items 2 years comparison**

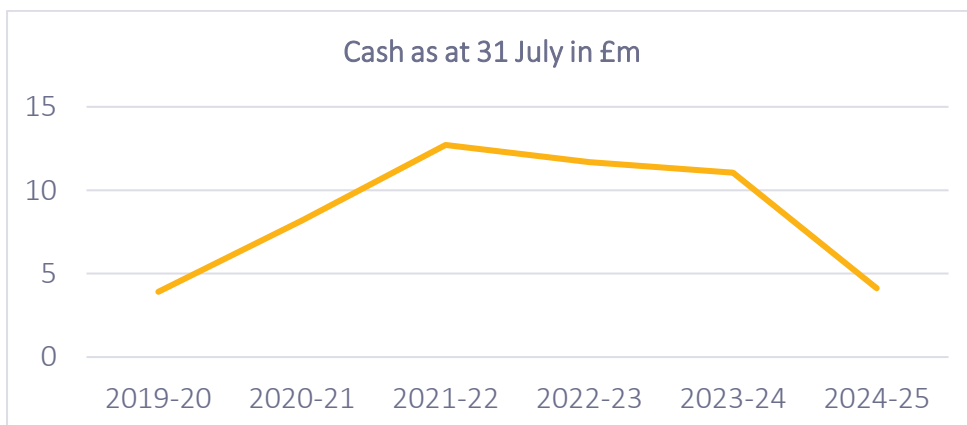


Source: 2024-25 Board of Management Report and Financial Statements

Staff costs, taken together continue to be the highest area of spend for the College accounting for 65% (64% in 2023/24) of total expenditure. When compared to the previous year these costs increased mainly reflecting the increase in Employer’s National Insurance costs in the year.

**Cash position**

**Exhibit 2: Cash position over 5-year period**



Source: Board of Management Report and Financial Statements

Operating cash held by the College was £4.1 million at year end. The cash balance has decreased in 2024/25 due to several payments being made during 2024/25 such as:

- £3.2 million held for pay awards in 2023/24 which have been paid during 2024/25;
- £0.5 million in respect to severances agreed in 2023/24;
- £1.5 million of payments in relation to the aerospace and digital transformation and
- £1.7million for the Kilwinning Campus contractual payment.

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

## **Budget Setting**

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

The College's Vice-Principal – Finance and Infrastructure is responsible for preparing an annual budget for approval by the Board of Management on the recommendation of the Business, Resources and Infrastructure Committee. The budget is informed by and aligned with the College's wider strategy documents.

The budget preparation process is built upon contributions from budget holders to ensure meaningful and achievable estimates are agreed.

## **Capital Expenditure**

There has been no significant capital expenditure undertaken during the financial year.

## **Systems of internal control**

We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

## **Prevention and detection of fraud and irregularity**

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

Internal Audit undertook a review programme in 2024/25 with a strong level of assurance provided relating to the arrangements in place to prevent and react to instances of fraud with the exception of estates management and only two low priority recommendations around payroll and staff recruitment being raised.

## **National Fraud Initiative**

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

The most recent NFI exercise commenced in 2024, with matches received for investigation in early 2025. The College staff have uploaded requested data for the 2024-25 NFI exercise and a report will be provided to the Committee on the NFI process when this is complete.

Overall, the College's arrangements with respect to NFI are satisfactory.

## Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.

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### Auditor judgement

Significant unmitigated risks affect achievement of corporate objectives



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### Significant audit risk

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

#### Financial sustainability (extract from 2024/25 External Audit Plan)

*The College continues to face significant financial challenges, operating within tight financial parameters, and actively continues to plan the measures required to ensure the College is in a long-term sustainable position.*

*Ayrshire College presented the Financial Forecast Return to the Board of Management in June 2024. The College estimates a deficit totalling £4.625 million for the period between 2024-27. This position is based on pay uplifts in line with the College Employers Scotland full and final offer and the Scottish Government's Public Sector Pay Policy. It also includes an expectation of no other sources of income and no change to the Scottish Government or SFC funding model.*

*The greatest risks to the College's sustainability are those around levels of funding from SFC, particularly with the removal of the one-off elements funded and the projected "flat cash" position for 2024/25 and beyond. In April 2025 the SFC revised the parameters of its funding model which indicates that the College could lose £2.1 million (5.6%) of core teaching funding from 2026/27 onwards. Discussions with the SFC remain ongoing to establish the timing and quantum of the proposed reduction. These discussions are also focussing on the mitigations required to assist the College to facilitate a reduction in its income level.*

*The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2024/25 and in every subsequent year thereafter.*

*Staff costs continue to be a significant pressure area for the College and a key aspect of the College's ambitious transition plan. With the uncertainty around the public sector pay settlements, any increase in staff costs will have a material impact on the finances of the*

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**Financial sustainability (extract from 2024/25 External Audit Plan)**

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*College. While the College will also have savings from the reduced pension contributions over the period until March 2026, after that period these will increase to 17.5%, so the nature of these savings will be short term.*

*The continuing and uncertain impact on the College's finances and, ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk.*

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Our detailed findings on Ayrshire College's financial framework for achieving long term financial sustainability are set out below.

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## Short Term Financial Planning

Audit Scotland recently found that 'Scotland's college sector continues to operate in an extremely difficult financial landscape. There was a 20 per cent real-terms reduction in funding for colleges between 2021/22 and 2025/26. Two targeted funding packages for colleges in 2023/24 were also withdrawn. Without changes to baseline funding, colleges will have to deliver even less to remain sustainable at a time when demands from students and employers are not being met. As college funding is also dependent on credit delivery, there is a risk that colleges prioritise courses that are less expensive to deliver over those that meet local need.' 'The demands on the college sector are changing, with fewer older students enrolling, increasing competition from universities for students and the impact of digital technology on how teaching is delivered. Due to continuing financial pressures, colleges will have to align themselves with wider public service reform activity and plan for the demands of the future rather than try to deliver more of the same with decreasing resources.'

The College is heavily reliant on SFC funding which currently represents c.87% of total income. As such, any movement in grant funding impacts directly on the College's financial position.

The SFC published final colleges funding allocations in July 2025. The 2025/26 SFC main grant allocation for the College is £37.9 million and this supports delivery of 111,480 of student credits, which is the same as the prior year. This represents an increase of £0.4 million of funding, which equates to 1.04%. This increased funding was not provided to meet general inflationary costs but to support increasing teaching pay and pension cost.

The College prepared its 2025/26 budget, prior to the final SFC allocation being announced, based on the indicative allocations and detailed forecasts available at the time. The key assumptions include:

- That the College will deliver the level of credit activity as per the 2025/26 funding allocation.
- No job evaluation funding or expenditure has been included beyond 2023/24.
- An increase in staff costs due to pay awards and National Insurance employer contributions
- The College has not assumed any further Voluntary Scheme costs and will need to discuss this assumption with the SFC due to the assumed £1.9 million of staff savings due to be made in 2026-27
- An increase in the Strathclyde Pension Fund employer contributions from 6.5% to 17.5% in April 2026 which will result in the increased cost being forecasted.

The College plans the delivery of in-year savings including:

- staff turnover efficiencies
- organizational structural changes
- non-staff costs efficiencies.

The budget for the year 2025/26 was presented to the Business, Resources and Infrastructure Committee in June 2025 before being taken to the Board of Management in June 2025. The 2025/26 budget projects an operational surplus of £1.0 million, which is £0.8 million below the required surplus of £1.8 million which is needed to allow the NPD, lease and retiree payments to be made without impacting the trading cash position. After accounting for net depreciation, the College will post a financial deficit of £3.02 million. The budget also includes £0.620 million of further investment in the subsidiary with no income expected to be received from the subsidiary until after August 2026. The subsidiary has only just received its Civil Aviation Authority (CAA) accreditation and is not operational as of November 2025.

## Medium Term Financial Planning

The Financial Forecast Return presented to the Board of Management in June 2025, covers the period 2024-2028. The College’s overall strategy was taken into consideration when preparing this document.

### Exhibit 3: Adjusted operating position over next three years

	2025/26 £m	2026/27 £m	2027/28 £m
Adjusted Operating Deficit	0.6	1.5	2.2

Source: June 2025 Financial Forecast

Based on the most updated position in 2024/25 the College estimates adjusted operating deficit totaling £4.3 million for the period between 2025-28. It includes an expectation of no other sources of income and a revision to current SFC funding model, which has changed the parameters on and the values associated with credits and the College estimate will have an impact of a reduction of income of around £0.7 million a year from 2026/27 to 2028/29.

The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2025/26 and in every subsequent year thereafter.

The adjusted operating result is the key financial measure used by the College. It takes the operating position per the accounting standards and adjusts it to exclude non-cash items.

The expected cash position of the College in 2025/26 is favourable however beyond that period, the College faces uncertainties and estimates a negative cash position.

**Exhibit 4: Cash position over next three years**

	2025/26 £m	2026/27 £m	2027/28 £m
Cash and cash equivalents at the end of the year	0.3	(1.4)	(3.7)

Source: June 2025 Financial Forecast

To address this, the College has developed a transformation and financial sustainability plan and is focusing on staff reorganisation and their overall estate.

**Impact on education provision**

Due to the above financial constraints, the College must identify savings, with staff costs accounting for the majority of College spend. It is the main cost driver as a 1% change equates to c.£0.3 million increase/decrease in cost.

In the current year, the College generated small savings through the voluntary severance scheme of £0.3 million and decreased its workforce by 9 staff members.

Ongoing/potential future reduction in staffing levels may impact the ability of the College to achieve its annual credit target and other national objectives, therefore having a knock-on effect on future financial and non-financial performance. This is likely to impact volume and range of course, qualifications and related learning journeys.

We do understand that these external factors (e.g. funding decisions, inflation, pay awards) are not entirely within the College’s control and the College is considering all options to maintain appropriate levels of teaching delivery. At the same time, this challenge will be partly managed by an effective and continuously changing, scenario-based workforce plan.

The College has in place a People Strategy 2024-27. We note this document analyses the key issues and how the College intends to achieve its aims.

**Capital plans - estates**

The College has a high-level Infrastructure Strategy 2024-27 to address emerging and future needs. One out of three of the College’s Campus is operated under an NPD contract and thus the maintenance of the infrastructure lies with the operators. The College has identified backlog maintenance totalling £6.5 million across their Dam Park, Riverside and Aeronautical buildings at the Ayr campus to ensure the infrastructure remains fit for purpose. The College have not yet set a capital plan for 2025/26 due to uncertainties over RDEL/ CDEL.

The delivery of the Infrastructure Strategy is overseen by the Vice Principal Finance and Infrastructure and supported by the Facilities and Digital teams with the Business, Resource and Infrastructure Committee oversight and reporting to the Board. This allows appropriate governance arrangements.

The Board approved the Infrastructure Strategy at the December 2024 Board meeting.

## **Kilwinning Campus PFI Contract**

The College's PFI contract for the Kilwinning Campus expired in June 2025. The College purchased the facility from KE Projects for £1.7 million. Under this agreement, the College also took responsibility for several of the staff employed by KE Projects and now are responsible for the maintenance of the building.

## **Trading Subsidiary**

The College has established a trading subsidiary, SAI Aerospace Training Ltd which it plans to have operational during 2025/26. This is for the provision of courses for aircraft maintenance training. The College has set up an investment fund to establish the subsidiary. The College has also undertaken the purchase of equipment for the subsidiary, such as an aircraft hangar in year, which it plans to lease out to SAI Aerospace Training Ltd once this is operational. As the trading subsidiary is not yet operational, we cannot assess whether the planned establishment of a trading subsidiary is supported by appropriate governance, scrutiny and risk management frameworks.

## Vision, leadership and governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

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### Auditor judgement

Effective and appropriate arrangements are in place



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## Vision and leadership

The College's Strategic Ambition was launched in August 2024 and covers the period 2024-27. It builds on the College's collective achievements over recent years, as the organisation strives for even greater success in pursuit of its three key strategic themes to:

- Deliver outstanding experiences.
- Be a partner of choice.
- Have a key role in enabling the future.

These new priorities are an evolution from the main strategic priorities of the previous Statement of Ambition 2030. The Strategic Ambition sets out three core objectives for the coming period.

- To provide Outstanding Experiences
- To be a Partner of Choice
- Enabling the Future.

The new Statement of Ambition covers 4 key strategic areas: Infrastructure, People, Learning and Teaching and Business. The College is in the process of updating the relevant strategic documents and these were presented to the December 2024 Board of Management for approval.

There is a financial memorandum in place between the SFC and the College which ensures that the terms and conditions of grant funding are clear and understood.

Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between the SFC and the College. From review of available committee and board minutes and papers, we are satisfied that the College routinely considers reports on the development and implementation of the ROA.

## Governance arrangements

The Board of Management is responsible for ensuring the overall governance of the College. In driving forward the strategic direction of the College and ensuring the governance framework is operating as intended, the Board continues to be supported by five committees:

- Audit and Risk Committee
- Business, Resources and Infrastructure Committee (renamed in August 2025 as People, Infrastructure and Finance Committee)
- Learning, Teaching and Quality Committee
- Performance Review and Remuneration Committee
- Search and Nominations Committee.

The Board undertook an effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review was performed by a self-assessment survey and reported to the Board at the September 2025 meeting. Overall, the additional feedback received from Board members was considered as positive. Several areas were identified for improvement, and these will be incorporated into the Board Development Plan.

After the resignation of the previous Board's chair in July 2025, the former chair of the Audit and Risk Committee became an interim chair of the Board until the recruitment and appointment of the permanent chair is concluded by the Scottish Government.

Our review of the College's Governance Statement confirms that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the SFC Accounts Direction.

## Internal Audit

An effective internal audit service is an important element of a College's overall governance arrangements. The College's internal audit service is provided by WBG. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the College's total audit resource.

Internal Audit annual assurance opinion was provided to the College in October 2025. In their opinion the Internal Audit concluded that the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of audit work. This opinion also stated that proper arrangements are in place to promote and secure Value for Money.

## Standards of conduct

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

## Risk Management

The College have addressed their risk management process in the year and has further embedded this into the management process and Board Committee and Board of Management oversight processes. The Risk Management Policy was reviewed and updated at the September 2025 Audit and Risk Committee meeting with Board approval being given in October 2025 to the updated policy. The Board agreed that the register should be expanded to cover not only risk but opportunities as well. The College will work to address this area of development in the coming months.

## Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

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### Auditor judgement

Risks exist to the achievement of operational objectives



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## Performance Management Arrangements

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

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

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

## Performance framework

The College has a detailed Strategic Ambition. This is overseen by members of the Executive Leadership Team who ensure individual targets and actions are being delivered by the lead member of senior staff. Regular performance monitoring papers are also presented to the Board.

Performance is monitored routinely throughout the year by the Board and progress against performance measures is presented to the Board annually for challenge and scrutiny.

Overall activity is managed by the Senior Leadership Team at monthly meetings where student activity targets are monitored along with performance against budget and achievement of planned activities for the year. Financial performance is also monitored regularly at the Business, Resources and Infrastructure Committee. The Board of Management are informed of the progress made towards key targets and performance through regular reporting.

## Performance results

The College reports on key measures which covers student data. The College's performance against key performance indicators for academic year 2024/25 shows that for the student credits target of 114,480 was achieved.

### Exhibit 5: Ayrshire College Performance

Student Data		Trend	College 2024-25	College 2023-24
Activity	Actual credits	Increase	112,341	111,600
	Target credits	No change	111,480	111,480
Student Numbers	Unique enrolments	Increase	16,825	14,787
Early Withdrawal	FE Full Time	Improved	4.0%	5.3%
	HE Full Time	Improved	3.3%	4.4%
Success	FE Full Time	Increase	74.0%	67.9%
	HE Full Time	Increase	69.1%	63.3%
Gender Balance	Male	No change	54%	54%
	Female	No change	45%	45%
	Not Known	No change	0%	0%
	Prefer not to say	No change	1%	1%
SIMD10	Unique enrolments	Increase	1,698	1,660
	Success rate	Increase	75%	72%
SIMD20	Unique enrolments	Increase	3,633	3,535

Student Data		Trend	College 2024-25	College 2023-24
	Success rate	Increase	77%	72%
Declared Disability	Unique enrolments	Decrease	3,302	3,568
	Success rate	Increase	77%	73%
Student Satisfaction	Actual	Decrease	96%	97%

Source: 2024-25 Board of Management Report and Financial Statements

The above performance indicators show that the College has improved or had no change for all of their performance indicators except two. Declared Disability Unique Enrolments and Student Satisfaction. The table highlights that student performance has improved, there are less early withdrawals and that although it has decreased slightly, Student Satisfaction is still high at 96%.

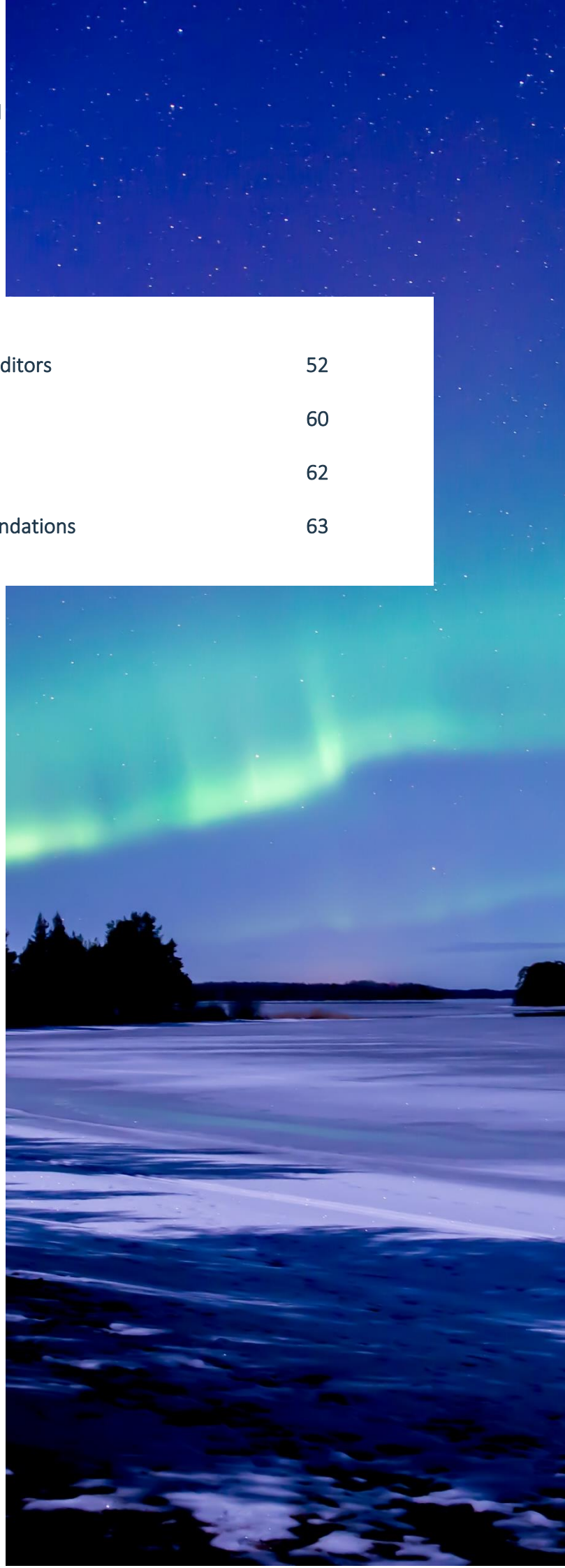
The performance data presented in the annual report has changed compared to 2023/24 due to has based their indicators on the SFC's assurance and accountability model.

The College also have a KPI dashboard, which is presented to each Board meeting as a verbal update.

The Board is now receiving links to the KPI Dashboard, embedded in every Board Meeting agenda when it is sent out so the Board can access the dashboard to support them in making informed decisions.

## Appendices

Appendix 1: Responsibilities of Boards and Auditors	52
Appendix 2: Audit adjustments	60
Appendix 3: Action plan	62
Appendix 4: Follow up of prior year recommendations	63



## Appendix 1: Responsibilities of Boards and Auditors

### Responsibilities of the College

The Code of Audit Practice (2021) sets out the following responsibilities:

Area	Board responsibilities
<p><b>Corporate governance</b></p>	<p>The Board of Management is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<p><b>Financial statements and related reports</b></p>	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of the financial position of the College and its group and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the College and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting</p>

Area	Board responsibilities
	<p>framework. The relevant information should be communicated clearly and concisely.</p> <p>The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Board is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p><b>Financial position</b></p>	<p>The College is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Best value</b></p>	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Accountable Officers are required to ensure accountability and transparency through effective performance reporting for both internal and external stakeholders.</p>

## Auditor responsibilities

### Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code outlines the responsibilities of external auditors and it is a condition of our appointment that we follow it.

### Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Board and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

### Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

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## Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

### Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

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## Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

### Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

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## Vision, leadership and governance



Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

### Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

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## Use of resources to improve outcomes



Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

### Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

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## Best Value

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

## Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at Quality of public audit in Scotland: Annual report 2024-25 | Audit Scotland

## Independence and ethics

The Ethical Standards and ISA (UK) 260 require us to report full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical requirements and further to our external audit plan issued confirming audit arrangements we confirm that there are no further facts or matters that impact on our integrity, objectivity and independence as auditors that we are required or wish to draw attention to. We consider an objective, reasonable and informed third party would take the same view.

### Other threats and safeguards

Other potential threats for which we have applied appropriate safeguards include:

We consider an objective, reasonable and informed third party would take the same view.

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

In particular:

#### Non-audit services:

Non-audit service	Fee	Type of threat	Safeguard
VAT advisory services	£9,150	Self-review Management decisions	We obtained clearance from our Ethics Partner and Audit Scotland prior to commencing the engagement. The work has been undertaken by a separate team from the audit, and the audit team has had no involvement in this VAT work.
Corporation Tax work	£3,250	Self-review Management decisions	This is a new area of work which we did not report in our Annual Audit Plan issued in June 2025.  The audit team were not made aware of the provision of this non audit work prior to commencing the engagement. We have now obtained retrospective clearance from the Engagement Leader and from Audit Scotland. The work has been undertaken by a separate team from the audit, and the audit team has had no involvement in this corporation tax work.

**Contingent fees:** No contingent fee arrangements are in place for any services provided

**Gifts and hospitality:** We have not identified any gifts or hospitality provided to, or received from, any member of the Board, senior management or staff

**Relationships:** We have no other relationships with the Board, its directors, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control-related areas.

Our period of total uninterrupted appointment as at the end of 31 July 2025 was three years.

## Audit fees

Our 2024/25 audit fee has been agreed with management as £58,910.

Fee element	2024/25	2023/24
Auditor remuneration	56,400	54,130
Auditor remuneration (above expected fee level)	3,840	0
Pooled costs	(7,120)	(5,770)
Sectoral cap adjustment	5,790	5,670
<b>Total audit fee</b>	<b>58,910</b>	<b>54,030</b>

The audit fees charged reconcile to the fees disclosed in the financial statements.

## Appendix 2: Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management

### Adjusted misstatements

One adjustment to the financial statements was identified from our audit work. Details of items corrected following discussions with management are as below.

No	Detail	Statement of Comprehensive Income Dr / (Cr) £'000	Statement of Financial Position Dr / (Cr) £'000	Impact on surplus Dr / (Cr) £'000
1.	Reclassification of a provision for PFI related costs to a contingent liability	Expenditure (522)	Provisions 522	522
2.	Adjustment to the transfer between the revaluation reserve and income and expenditure account		Revaluation Reserve 236 Income and Expenditure Account (236)	
	<b>Net impact on (income)/expenditure</b>			<b>(522)</b>
	<b>Net impact on net assets</b>			<b>522</b>

### Unadjusted misstatements

We have not identified any unadjusted misstatements over our reporting threshold which require reporting to the Board.

### Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the College.

We identified a number of reclassification adjustments and some minor presentational issues in the accounts, and these have all been amended by management. Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	<p>Tangible Fixed Assets Note</p> <p>On receipt of the draft accounts this note was formatted incorrectly, although an updated version of this note was provided to us promptly. When reconciling this note to the College’s fixed asset register, we identified asset values that were not included in the revised version of this note, although these had no impact on the net book value. The College is planning to move to a new accounting system in 2025/26 and will look to consider the availability of fixed asset system modules as part of this system to ensure the recording of all fixed asset data.</p>
2.	<p>Operating Lease Commitments</p> <p>The wording per the operating lease commitments note has been updated to reflect there being total operating lease commitments disclosed and not annual costs.</p>
3.	<p>Remuneration and Staff Report</p> <p>Work is still ongoing however to date we identified the opening CETV figure for one senior official was updated.</p>
4.	<p>Related Parties</p> <p>Changes to the income and expenditure figures with related parties in year and updating the related parties list.</p>

## Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our 2024/25 audit, which we feel are of sufficient importance to merit reporting.

The recommendations are categorised into three risk ratings:

**Key:**

- Significant deficiency
- Other deficiency
- Other observation

1. Fixed Asset Register	Other observation
<b>Observation</b>	During the audit we noted that Ayrshire College uses excel spreadsheet to maintain their fixed asset register. This resulted in some delay in being able to undertake our detailed fixed asset testing due to manual nature of the source and related audit workings. This also resulted in an audit adjustment between the revaluation reserve and income and expenditure account as the formulas in the excel FAR were picking up values from incorrect columns and an adjustment to the PPE disclosure due to there being disposals not included in the original fixed asset register provided.
<b>Implication</b>	An automated system would ensure that amounts are held centrally and adjustments and charges such as depreciation and the transfer between the revaluation reserve and income and expenditure account are not manually calculated, ensuring less chance of there being a manual error, as identified above.
<b>Recommendation</b>	The College should consider implementing a fixed asset register system which hold assets centrally and can be used to ensure movements are not manually calculated.
<b>Management response</b>	The College will consider implementing a fixed asset register system to hold assets centrally and to allow for calculations to be performed within the system.  <b>Responsible officer:</b> Chief Financial Controller <b>Implementation date:</b> August 2026

## Appendix 4: Follow up of prior year recommendations

As part of our audit work we have followed up on control weaknesses and recommendations either raised in last year’s Annual Audit Report or carried forward from prior years.

1. Accounts Production Process	
<b>Recommendation</b>	During our audit work we identified that employment contracts were not able to be provided for some new staff members who had joined in the year. Other supporting documentation was able to be provided to confirm the existence of the employee.
<b>Implementation date</b>	Immediate
<b>Closed</b>	We have identified no issues with receipt of employment contracts for our testing in 2024/25.



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