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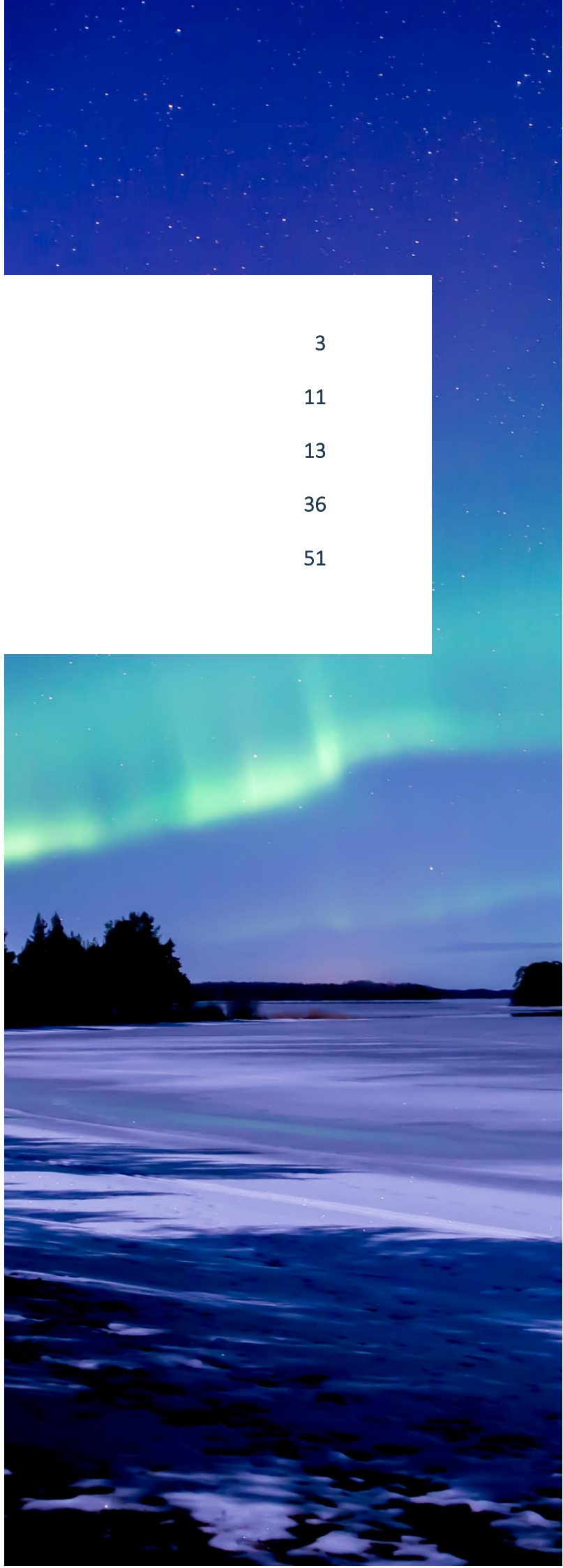
Dumfries and Galloway College

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

November 2025

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Key messages

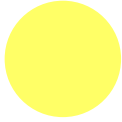
Financial statements audit


Audit opinion	Our independent auditor’s report is unqualified in all regards.
Audit approach	<p>Our audit approach has been based on gaining an understanding of the College’s control environment and has been risk based. This included:</p> <ul style="list-style-type: none"> • An evaluation of the College’s internal control environment, including the IT systems and controls; and • Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to our key audit risks. <p>We have not altered our audit plan following receipt of the draft financial statements.</p>
Key audit findings	<p>We identified a material error in the College’s valuation of land and buildings (£9.133million). The College obtained an updated valuation report from its valuer, Ryden and updated the accounts appropriately to reflect the updated valuation report.</p> <p>We recognise that, as a small College with a finance team of limited capacity, the preparation of the 2024/25 financial statements and support of the audit process represented a significant undertaking this year. These challenges were heightened by the successful implementation of a new finance system, which was a major achievement but naturally required considerable staff time and adjustment during the transition period.</p> <p>The College maintained sound administrative processes to support the preparation of the annual accounts and associated working papers. While there were some timing pressures in finalising a complete set of annual accounts, including the Performance Report, we appreciate the College’s ongoing engagement throughout the process and its commitment to providing the necessary information as soon as practicable. Although the Performance Report was received around five</p>

	<p>weeks into the audit, the College worked constructively with us to ensure its completion.</p> <p>Although the College had informed us that the draft Performance Report would not be available for review at the start of the audit, we were not provided with a clear timescale of when we would receive this which had some impact on our ability to schedule our review of this document alongside other elements of audit fieldwork. We raised a recommendation relating to the preparation of a clear timetable in 2023/24 and have carried this recommendation forward.</p> <p>Similarly, the reconciliation of the ledger and fixed asset register to the accounts took longer to finalise than planned, which is understandable given the complexities of introducing the new finance system. Our testing of transactions since implementation identified some opportunities to strengthen controls around journal authorisation and month-end close procedures. These are not uncommon in the early stages of system adoption, and the College are confident that they can be addressed as part of the ongoing system embedding and staff familiarisation process.</p> <p>The additional audit work required to review the new finance system implementation is reflected in a revised fee of £5,000 compared to the £3,800 originally estimated in our audit plan (see page 58).</p> <p>We obtained sufficient and appropriate audit evidence in relation to the significant risks identified in our audit plan. We are satisfied that the accounting policies adopted in preparing the financial statements are appropriate and that the related accounting estimates and judgements have been applied reasonably. All material disclosures required by relevant legislation and applicable accounting standards have been appropriately made.</p>
Audit adjustments	<p>Three audit adjustments and a prior period adjustment were identified within the financial statements:</p> <ul style="list-style-type: none">• Error in the College’s land and buildings valuation (£9.133million).

	<ul style="list-style-type: none">• Internal recharges for course delivery not cancelled out (£47.139 offsetting adjustment- nil impact on financial statements.• Error in annual transfer from the revaluation reserve calculation- current year and prior period adjustment (£250,187 in 2024/25 and 2023/24). <p>Four unadjusted misstatements were also identified within the financial statements:</p> <ul style="list-style-type: none">• Deferred capital grant release for non-compliant depreciation policy.• Depreciation charge for non-compliant depreciation policy.• Write out of depreciation on revaluation for non-compliant depreciation policy• Release of deferred income per extrapolated error identified in other operating income testing. <p>We also identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.</p> <p>Details of the adjusted and unadjusted misstatements are included at Appendix 2.</p>
Internal controls	<p>The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.</p> <p>Our audit is, therefore, not designed to identify all control weaknesses.</p> <p>No material weaknesses or significant deficiencies were noted.</p>

Wider scope of public audit

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	
	<p>The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the current levels of budget pressure, inflation and related funding levels from SFC.</p> <p>The College reports an operating deficit of £1.540million for the year end 31 July 2025. The adjusted operation position, which excludes non-cash adjustments and other material one-off or distorting items as required by the FE SORP, is a net surplus of £0.010million.</p> <p>The College reported a decreasing cash balance of £0.966million at 31 July 2025 however, this position is primarily due to one off specific payouts towards the year end including payments for capital projects and repayment of unspent 2023/24 student support funds. We will continue to monitor the cash position of the College and the financial flexibility which this allows the College to have in periods of significant financial challenge.</p>	

<p>Financial Sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services and the way in which they should be delivered.</p>	<p>Auditor judgement</p> <p>Significant mitigated risks affect achievement of corporate objectives</p> 
	<p>The College has appropriate arrangements in place to prepare short and medium-term financial plans, but it continues to face significant challenges, operating within tight financial parameters and with cognisance of the national economic outlook. It has proactive measures in place to recognise, understand and scrutinise the challenges.</p>
	<p>The College submitted its Financial Forecast Return (FFR) which forecasts operating deficits, an adjusted operating surplus in 2025/26 and adjusted operating deficits in 2026/27 and 2027/28. The College has commenced several key elements of work to look at improving the financial sustainability of the College including:</p> <ul style="list-style-type: none"> • Preparing a business case to support an increase in credit activity by 10% to submit to SFC. • An increased focus on commercial income sources through increased commercial targets for 2025/26 and formalisation of the College’s Commercial Strategy. <p>The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector. The College’s ability to develop and maintain its core services in a sustainable manner remains at significant risk from 2025/26 and beyond, and this requires continuing careful management and oversight.</p>

<p>Vision, Leadership and Governance</p> <p>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.</p>	<p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place</p>  <hr/> <p>Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the College continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.</p> <p>Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees.</p> <p>The Board approved the next iteration of its strategy, Mission 2030, in June 2024, which was launched in November 2024. We are satisfied that appropriate arrangements are in place to oversee the delivery of Mission 2030 and that all areas of the strategy are progressing at a good pace.</p>
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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 judgement

Risks exist to achievement of operational objectives



The College has appropriate performance management processes in place that support monitoring and scrutinising performance.

The College demonstrated an improvement in student outcomes compared to 2023/24 performance across all levels and modes of study. For the first time in a number of years, the student credits target of 27,800 was exceeded which represents a notable achievement in a year where the both the College and the sector faced a high level of financial challenge.

As described in the Financial Sustainability section, there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position alongside the significant financial pressures that the College is facing may impact on its ability to deliver curriculum activity or support students and staff in future years. This also presents a risk of deterioration in the College's performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

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 Committee at the outset of our audit.

Responsibilities

The College is responsible for preparing an annual report and accounts, including financial statements, 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.

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 audit report.</p>	<p>The annual report and accounts was considered by the Audit Committee on 24 November 2025 and approved by the Board on 8 December 2025.</p> <p>Our independent auditor’s report is unqualified in all regards.</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 College’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of the College.</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>

Opinion	Basis for opinion	Conclusions
<p>Regularity of income and expenditure</p>	<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 enactments and guidance issued by the Scottish Ministers.</p>
<p>Opinions prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • The audited part of the Remuneration and Staff Report • Performance Report • Governance Statement 	<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"> • the audited parts of the Remuneration and Staff Report have been properly prepared. • the information given in the performance report is consistent with the financial statements and has been properly prepared. • the information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through our audit.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • 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; or • there has been a failure to achieve a prescribed financial objective. 	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 Committee in May 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	Developing	<p>We received draft financial statements at the start of the audit process as agreed. The College had informed us that the draft Performance Report would not be available for review at this time, although we were not provided with a clear timescale of when we would receive this which had some impact on our ability to schedule our review of this document alongside other elements of audit fieldwork.</p> <p>We raised a recommendation with management relating to the preparation of a clear closedown timetable in 2023/24 and have carried this recommendation forward.</p>
Quality of working papers provided and adherence to timetable	Developing	<p>We received most working papers to a good standard in line with our audit timetable. Further information was provided promptly where required.</p> <p>However, we experienced delays in the receipt of a complete ledger which reconciled to the accounts which we acknowledge was due to the College implementing a new finance system in the year.</p>

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	We received full access to the finance team and other key personnel. All audit queries and requests were responded to in a timely manner.
<p>Quality and timeliness of the</p> <ul style="list-style-type: none"> • audited part of the Remuneration and Staff Report • Performance Report • Governance Statement <p>As well as the quality and timeliness of supporting working papers for those statements.</p>	Developing	<p>As noted above, we experienced some delays in the provision of a full set of annual accounts where we did not receive the Performance Report until five weeks into the audit process. We were aware that the Performance Report would not be received at the start of the audit process but there was not a clear timescale of when we would receive this.</p> <p>We identified disclosure changes in relation to the Performance Report, Governance Statement and Remuneration and Staff Report. See Appendix 2 for further details.</p>
Volume and magnitude of identified errors	Mature	We identified three audit adjustments, one prior period adjustment and four unadjusted misstatements in year. The unadjusted misstatements were not material to the College collectively. This represents an increase in errors from the previous year.

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	Low	From our work we found no evidence of material fraud or error through management override of controls. We raised one recommendation in relation to the College's journal authorisation. See Appendix 2

Risk area	Financial statement / Assertion level risk	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
					for further details.
Fraud in revenue recognition	Assertion level	Yes	Assess design & implementation	Low	From our work we found no indication of fraud through revenue recognition.
Fraud in non-pay expenditure recognition	Assertion level	Yes	Assess design & implementation	Low	From our work we found no indication of fraud through non-pay expenditure recognition.
Valuation of land and buildings	Assertion level	No	Assess design & implementation	High	From our work we have obtained assurance that the land and buildings valuation in the accounts are free of material misstatement. We identified a material error (£9.133million) in the College's land and buildings valuation. The College obtained

Risk area	Financial statement / Assertion level risk	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
					<p>an updated valuation report from its valuer, Ryden and updated the accounts appropriately to reflect the updated valuation report.</p>
<p>Pension asset / liability</p>	<p>Assertion level</p>	<p>No</p>	<p>Assess design & implementation</p>	<p>High</p>	<p>From our work we have obtained assurance that the pension asset/liability in the accounts are free of material misstatement.</p> <p>We identified disclosure changes in relation to the College's application of the asset ceiling. See Appendix 2 for further details.</p>

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>Significant risk description</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>Risk of material misstatement: Very High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgement</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>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysed the journals listing and determining the criteria for selecting high risk and/or unusual journals. • Tested high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to

Risk area	Management override of controls
	<p>ensure approval has been undertaken in line with the College's journals policy.</p> <ul style="list-style-type: none"> • Gained 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. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	<p>We have not identified any indication of management override of controls in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years. We raised one recommendation in relation to the College's journal authorisation process, see Appendix 2 for further details.</p>

Risk area	Implementation of new accounting system
Significant risk description	<p>From 3 February 2025, the College began using a new general ledger system, Financials Live.</p> <p>When implementing a significant new accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer made from the previous ledger system into the new one.</p> <p>We have therefore identified this area as a significant risk with potential impact on all financial statement areas.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement: High</p>
How the scope of our audit responded to the significant risk	<p>Key judgement</p> <p>When implementing a significant new accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a</p>

Risk area	Implementation of new accounting system
	<p>risk over the completeness and accuracy of the data transfer made from the previous ledger system into the new one.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Obtained an understanding of the process used for new system implementation. This will be through understanding the effect that the new system has on material business processes. This will be done through performance of walkthroughs to confirm appropriate design controls are in place. • Tested data migration activity on the opening trial balance as at 3 February 2025 to understand how the previous period closing trial balance has been migrated into the new system to ensure completeness and accuracy.
<p>Key observations</p>	<p>We have not identified any issues with the controls in place to ensure the integrity of the data and over the completeness and accuracy of the data transfer made from the previous ledger system into the new one.</p> <p>We have identified “other deficiencies” in the processes relating to journal authorisation and closedown of monthly accounting periods in our testing of transactions posted in the period since the implementation of the new ledger. Further details and a related recommendation are included on page 60.</p> <p>We experienced delays in the receipt of a complete ledger and fixed asset register which reconciled to the accounts which we acknowledge was due to the implementation of the new finance system in 2024/25.</p> <p>The above issues impacted on the level of work required relating to the implementation of the new finance system, which we had estimated at a fee of £3,800 in our audit plan and have now reassessed at £5,000 as set out on page 56</p>

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

Key risk area	Fraud in revenue recognition
<p>Significant risk description</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>Inherent risk of material misstatement:</p> <p>Revenue (occurrence and accuracy): Very High</p> <p>Receivables (existence): Very High</p>

Key risk area	Fraud in revenue recognition
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</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>Audit procedures</p> <ul style="list-style-type: none"> • Documented 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. • Evaluated 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. • Obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material income streams using analytical procedures and sample testing of transactions recognised for the year.
<p>Key observations</p>	<p>We identified no significant issues in testing income and receivables. We have gained reasonable assurance over the occurrence and accuracy of income and existence of receivables. We have identified no indication of fraud in recognition of revenue.</p>

Key risk area	Fraud in non-pay expenditure recognition
<p>Significant risk description</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>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <p>Non-pay expenditure (completeness): Very High</p> <p>Accruals (completeness): Very High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</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>Audit procedures</p> <ul style="list-style-type: none"> • Documented 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. • Evaluated 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. • Substantively tested material expenditure streams using analytical procedures and sample testing of transactions recognised for the year. • Reviewed accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key risk area	Fraud in non-pay expenditure recognition
Key observations	We identified no significant issues in testing expenditure and accruals. We have gained reasonable assurance over the completeness and accruals. We have identified no indication of fraud in recognition of expenditure

Key risk area	Valuation of land and buildings (key accounting estimate)
Significant risk description	<p>The College held land and buildings with a net book value of £42.720 million at 31 July 2024, with full external valuations last undertaken as at 31 July 2023 and an external desktop valuation undertaken as at 31 July 2024.</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 falls outside of our expectations.</p> <p>Inherent risk of material misstatement: Land and Buildings (valuation): High</p>
How the scope of our audit responded to the significant risk	<p>Key judgements</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>

Key risk area	Valuation of land and buildings (key accounting estimate)
	<p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Considered the basis on which the valuation is carried out and challenging the key assumptions applied. • Evaluated the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. • For unusual or unexpected valuation movements, tested the information used by the valuer to ensure it is complete and consistent with our understanding. • Ensured revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.
<p>Key observations</p>	<p>The College instructed a new valuer in the year, Ryden, to carry out a full valuation of its estate as at 31 July 2025. We identified a material error in the College’s valuation of land and buildings (£9.133million). The College obtained an updated valuation report from its valuer, Ryden and updated the accounts appropriately to reflect the updated valuation report.</p> <p>We evaluated the competence, objectivity and capability of management’s expert in line with the requirements of ISA (UK) 500 and concluded that use of the expert was appropriate. We confirmed that the basis of valuation for assets is appropriate based on the usage and reviewed the reasonableness of valuation assumptions applied.</p> <p>We reviewed the key estimates and judgements that management made in respect to the valuation of land and buildings for any indication of bias and assessed whether the judgements used by management are reasonable. We concluded that estimates and judgements are balanced.</p>

Key risk area	Pension valuation (key accounting estimate)
<p>Significant risk description</p>	<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 involved, 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> <p>Inherent risk of material misstatement:</p> <p>Pension net asset or liability (valuation): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</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>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated management’s process for the calculation of the estimate, the instructions issued to management’s expert (the actuary) and the scope of their work. • Evaluated the competence, capabilities and objectivity of the actuary.

Key risk area	Pension valuation (key accounting estimate)
	<ul style="list-style-type: none"> • Reviewed the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Evaluated whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements. • Ensured pension valuation movements for the year and related disclosures have been correctly.
<p>Key observations</p>	<p>We are satisfied that we have obtained reasonable assurance over the disclosures in the financial statements relating to the reported financial position.</p> <p>Accounting standards require the College to review the pension surplus and only recognise the lower of the surplus or an ‘asset ceiling’. The pension asset ceiling for this year capped the asset value to nil. We identified disclosure changes in relation to the College’s application of the asset ceiling. See Appendix 2 for further details.</p> <p>We reviewed the reasonableness of those assumptions used in the calculation against other college actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against data sources including pension fund data.</p> <p>We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 - Audit Evidence. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.</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 College 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 £318,000. 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 £
Overall materiality for the financial statements	318,000
Performance materiality (75% of materiality)	238,500
Trivial threshold (5% of materiality)	15,900

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 audited annual accounts. 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 College and

	the Counter party, the smaller of which drives materiality considerations on a transaction by transaction basis.
Performance materiality	<p>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.</p> <p>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.</p>
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.

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.

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.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 4.

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	There were no 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.
Prior year adjustments identified	We identified one prior period adjustment in relation to an error in the annual transfer from the revaluation reserve calculation which also impacted on the prior year comparative.
<p>Concerns identified in the following:</p> <ul style="list-style-type: none"> • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target 	No concerns were identified in relation to these areas.

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year, with the exception of the College's depreciation policy.

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 College changed its depreciation accounting policy where if a building is brought into use mid-way through a year the depreciation charge in the first year will be based on a full year of use. This does not comply with FRS 102 and FE SORP which require depreciation to be charged from when an asset is available for use. We have calculated the differences to the depreciation charge and amount of deferred capital grant which would be released if the depreciation had been charged from when new assets in the year were available for use and have concluded that the impact is not material. See Appendix 2 for further details.

All other accounting policies, which are disclosed in the financial statements, are in line with FRS 102 and 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.

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, pension asset/ liability, provisions and accruals. Other than asset valuation 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 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 are 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 reported an operating deficit of £1.540million for the year ended 31 July 2025, equating to 10% of the College's total income.

Adjusting for non-cash transactions per SFC directions, such as depreciation (£0.852million), job evaluation costs not matched by revenue (£0.239million) and the net charge arising from the pension valuation (£0.458million), the College shows an "adjusted" operating surplus of £0.010million (2023/24: surplus of £0.007million). This represents a small increase to in year performance when compared to the initial budget "adjusted" surplus of c.£0.004million primarily due to:

- Additional funding received from UK Shared Prosperity for Net Zero training and Digital infrastructure.
- Savings from the voluntary severance scheme were achieved which were not incorporated into the budget.

The College's main source of income continues to be grant funding from the SFC (80% of total income in 2024/25). This position is similar to that of the previous year due to income received from additional ring fenced grants including Counsellors and Mental Health and funding to cover pension increases.

SFC made changes to its indicative grant allocation in 2024/25 which included updating core credit prices, grouping colleges by size and geographical area, and applying a single premium

rate to each group to replace historic premiums. The overall adjustments applied show an uplift on the College’s allocation of core grant funding of £0.142million (1.31%).

As detailed in exhibit 1, staff costs continue to be the highest area of spend for the College accounting for 67% (65% in 2023/24) of total expenditure. When compared to the previous year these costs increased by 8% mainly reflecting payment of the 2024/25 pay award and an increase in employers national insurance contributions from April 2025.

The cost of voluntary severance in the year was higher than last year at £0.475million (£0.153million in 2023/24) and 10 members of staff took advantage of the scheme in 2024/25. This represented around 5% of total headcount. The College’s voluntary severance programme is expected to continue into future years as a key way to achieve savings in expenditure. Further detail is included in the financial sustainability section on key mechanisms that the College is developing to achieve savings in staff costs.

Exhibit 1 Key expenditure items 2 years comparison



Source: Annual Accounts 2024/25 and subsequent analysis

Cash position

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

Operating cash held by the College was £0.966million at year end (representing 23 cash days). This represents a small decrease from the cash position at 31 July 2024 of £1.120million (and 30 cash days). This position is primarily due to:

- Payments for capital projects.

- Repayment of unspent 2023/24 student support funds.

Audit Scotland's 'Scotland's Colleges 2025' continues to report increasing concerns around cash balances and the liquidity of the College sector and SFC's Financial Sustainability of Colleges in Scotland 2022/23 to 2027/28 report noted that the sector's cash reserves are forecast to further deteriorate with a negative position forecast by the end of 2027/28.

We are satisfied that the decrease in the College's cash balance at 31 July 2025 compared to the previous year was due to one off specific payouts as identified above. However, we will continue to monitor the cash position of the College and the financial flexibility which this allows the College to have in periods of significant financial challenge.

Systems of internal control

We have evaluated the College's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in the College's accounting and internal control systems during our audit.

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 various elements of the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

Regular updates on fraud related matters (including Counter Fraud Services updates and the National Fraud Initiative) are presented to the Audit Committee.

National fraud initiative

The National Fraud Initiative (NFI) 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 engages well with the NFI exercise and we have concluded that its arrangements with respect to NFI are satisfactory. The College uploaded all relevant data for the 2024 NFI exercise by the timescale of 31 October 2024 and reviewed and investigated all matches received.

Financial sustainability

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

Auditor judgement

Significant mitigated risks affect achievement of corporate objectives



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 with cognisance of the national economic outlook. Activity continues to plan the measures required to ensure the College is in a long-term sustainable position.

The College submitted its Financial Forecast Return (FFR) which forecasts operating deficits and adjusted operating surplus positions for 2024/25 to 2026/27. The College has commenced several key elements of work to look at improving the financial sustainability of the College including establishment of a working relationship with University of the West of Scotland and development of a three phased approach to workforce planning.

The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector including the projected "flat cash" SFC funding position and changes to the SFC funding formula for 2025/26. The College's ability to develop and maintain its core services in a sustainable manner remains a significant risk which requires continuing careful management and oversight.

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

2025/26 Financial Plan

The Board approved the 2025/26 budget in June 2025, in line with agreed timescales.

Due to the significant financial pressures facing the College sector including pay and non-pay inflationary pressures and flat cash funding, the College developed several budget scenarios as part of the 2025/26 budget setting process. The financial scenarios considered were higher pay inflation, lower pay inflation, increase in credit targets 2026-27 and realistic. The assumptions within the realistic scenario were applied to the budget approved by the Board.

The 2025/26 budget projects an operating deficit of £1.089million. Adjusting for non-cash items such as notional interest and depreciation gives a forecast adjusted operating surplus of £0.016million.

Budgeted income of £14.970million is broadly in line with the 2024/25 actual income. This is due to expected additional funding from SFC in 2025/26 to meet rising employer pension contribution offset by grant funding received from non-recurring other grant income including UK Shared Prosperity Grant funding for 2024/25 only.

Budgeted expenditure of £16.059million is 4% lower than 2023/24 actual expenditure. This is due to expected savings from the College's voluntary severance scheme and careful vacancy management throughout 2025/26.

In 2023/24, the SFC funding allocations saw a 10% in education delivery which translated into the same reduction for the College's credit target. In both 2024/25 and 2025/26 the SFC have kept College credit targets at the same level to allow for a period of stability to the sector. The College's credit target for 2025/26 therefore remains at 27,800.

The College has recognised that a continuing key challenge to its financial sustainability is being able to meet demand for those students interviewed and who are on waiting lists for College places where demand to attend the College is higher than the credit target provided by SFC. The College is currently preparing a business case to support an increase in credit activity by 10% to submit to SFC.

Staff Costs

Staff costs continue to be a significant challenge for the College and the 2024-25 to 2027-28 FFR has been prepared based on reduction in staffing numbers in 2025/26. This represents around 1% of 2024/25 total headcount.

As detailed above, the College's voluntary severance scheme is expected to continue into 2025/26 as a key way to achieve savings in staff costs, alongside careful vacancy management. Some staffing restructuring is being considered for 2025/26 to ensure the curriculum structure is aligned to regional and national priorities, to develop the workforce and ensure appropriate succession pathways.

The College has previously recognised that current staffing costs are not sustainable and are also actively looking to reduce staffing costs through the Transformation Plan. In October 2024 the Board approved a three phase approach to workforce planning which is focused on organisational redesign. The current phase is currently being reviewed with a future focus on system developments and realisation of efficiencies for back office processes.

It is important that the College closely monitors the identification and delivery of savings to staff costs to ensure that achievement of savings does not impact on the College's ability to deliver curriculum activity in future years.

Capital Expenditure

The College has received an allocation of £0.282million for capital maintenance which represents a 5% increase from the 2024/25 allocation of £0.269million.

In addition, the College was also successfully awarded funding of £4.9million from the Scottish Government's Energy Efficiency and Clean Heating from the Green Public Sector Estate Decarbonisation Scheme. This represents the main capital project for 2025/26 where the grant is to be used on the installation of energy efficiency measures across the College's two campus buildings.

The College is also seeking external funding from the Borderlands Growth Deal which would be utilised to invest in equipment and teaching resources and expand workshop capacity. The outcome of this capital funding bid has not yet been received by the College.

Medium Term Financial Planning

The College has prepared a medium term financial forecast as part of the SFC's FFR process. Both the SFC published guidance and the FFR was approved by the Board in June 2025.

The SFC has developed a set of common, indicative assumptions for Colleges to use in the aim of achieving consistency and comparability across the sector. The SFC continues to take into account the results from the Scottish Government's Spending Review and the subsequent impact on grant funding, pay costs and inflation when setting the FFR assumptions.

Assumptions include:

- SFC core grant funding and related credit targets should be based on the final 2025/26 funding allocations.
- Student support funding requirements will be fully met.
- SFC capital maintenance funding should be based on the final 2025/26 funding allocations.
- Staff costs will reflect: agreed cost of living increases, public sector pay policy and any known or expected increases in employer pension contribution rates.
- Funding will not be provided for severance costs.

We confirmed that the College has applied these assumptions when preparing the FFR.

The FFR anticipates operating deficits for 2025/26 to 2027/28 with an anticipated adjusted operating surplus in 2025/26 and adjusted operating deficits in 2026/27 and 2027/28, as shown in exhibit 2.

Exhibit 2- Adjusted Operating Position 2025/26-2027/28

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Total income	14,970	15,003	15,025
Total expenditure	(16,059)	(16,186)	(16,235)
Operating surplus / (deficit)	(1,089)	(1,183)	(1,210)
Adjusted operating surplus / (deficit)	16	(78)	(105)

Source: Financial Forecast Return 2025/26 to 2027/28

The College has an established working relationship with University of the West of Scotland (UWS). The College has recognised that this arrangement has the ability to improve the financial sustainability through receipt of additional income through University of the West of Scotland occupying the campus and through the pathfinder strategic project. The College has continued to work collaboratively with UWS to reduce barriers to entry to College education.

Key risks and uncertainties facing the College

Audit Scotland recently reported that the College sector continues to operate in an extremely difficult financial landscape. It was noted that there was a 20% real-terms reduction in funding for colleges between 2021/22 and 2025/26 and 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. College funding is also dependent on credit delivery, which continues to present a risk that Colleges will prioritise courses that are less expensive to deliver over those that meet local need. 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.8% of the College's total income. As such a small movement in grant funding has a significant impact on the College's financial position.

Due to the College's reliance on SFC funding, there is a significant focus from the College on raising income through additional sources including commercial income. A Commercial Team continues to work towards achievement of an increased target for 2025/26 and the College is working to formalise its Commercial Strategy which is focused on ensure maximum impact of existing resource, identifying new and sustainable funding opportunities and to expand the commercial offer out with the region, in line with Mission 2030 priorities.

The College has recognised the financial challenges impacting on the sector. Scenario planning is a key component of both short term and medium term financial planning to monitor the uncertainty over funding, income streams and pay inflation, and the College has also continued to monitor financial sustainability as a critical risk on the risk register.

We do understand that these external factors (e.g. funding decisions and inflation) are not entirely within the College's control and the College is considering all options to maintain appropriate levels of the teaching delivery. The College itself has recognised that achieving a sustainable medium term financial position in the current environment will be extremely challenging, and our position and assessment continues to reflect this.

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



Leadership

There have been a number of changes to the Board of Management from 1 August 2024 to the date of signing of the accounts.

The role of Principal and Chief Executive was held by Joanna Campbell until March 2025 and Douglas Dickson, the previous Depute Principal, was appointed to the role from April 2025.

All new Board members were provided with an induction programme prior to their first Board meeting. In view of the number of board-level changes in the financial year, we reviewed the induction process for new Board members and concluded that it provides those charged with governance with the information and platform to commence undertaking their duties effectively.

In addition, the Board held several development sessions during 2024/25 including a Board Strategy Day in May 2025. From review of the Board development sessions, we have concluded that they provided board members with appropriate and relevant information and a suitable platform to continue to discharge their leadership responsibilities effectively.

Governance arrangements

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

- Audit Committee;
- Finance and General Purposes Committee;
- Human Resources Sub Committee (was disbanded after the in May 2025 and subsumed into Finance and General Purposes Committee);
- Learning and Teaching Committee;
- Remuneration Committee;
- Board Development Committee; and
- Grievances and Appeals Committee.

The Board is focused on demonstrating continuous improvement and carries out an annual self-evaluation process. An Externally Facilitated Effectiveness Review of the Board was also conducted by College Development Network in 2024/25. The report from the review was published in November 2024 and concluded that:

- The Board is effective and benefits from strong, insightful leadership from the Chair who has established a culture of respect, accountability and openness.
- The quality of the student experience is core to board discussions and there is ambition for student success. The college recently received a very positive report following the Education Scotland Annual Engagement Visit.
- The governance of the College is effective, robust, and demonstrates best practice in every aspect of college governance. There is a clear alignment with the requirements of the Code of Good Governance for Scotland's Colleges (the Code) with a 'Code of Good Governance Checklist' which is reviewed by the Audit Committee before it is shared with the Board. This provides valuable assurance to Board members.

In addition, one recommendation was made from the review, which was given the number of new members, and more to be recruited over the coming year, building the new Board team should be a priority. This recommendation has been appropriately included in the College's Board Development and Action Plan for 2025/26.

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 Accounts Direction.

Board and Committee meetings

Committee meetings have continued to be held virtually rather than in person, to date, to comply with requirements for non-essential travel and physical distancing, and the preferred mechanism is through MS Teams, in line with the sector. During 2024/25, Board meetings have continued to be held in person.

Throughout 2024/25, the College has been able to maintain all aspects of board governance, including its regular schedule of Board and Committee meetings.

Through our review of committee papers we are satisfied that there continues to be effective scrutiny, challenge and informed decision making through the financial period.

Mission 2030

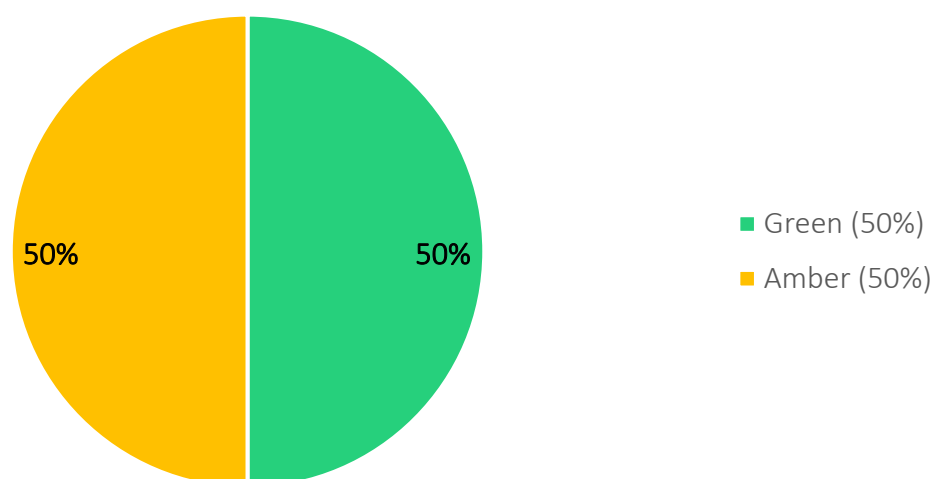
The Board approved the next iteration of its strategy, Mission 2030, in June 2024, which was launched in November 2024. Mission 2030 was built on the success of the College's Strategic Ambition 2025 and remains focused on four key pillars to represent the College's strategic priorities. The pillars which form part of Mission 2030 are:

- Future Skills- Our Students
- Our Future Workforce - Our People
- Future Education - Our Learning
- Future Growth- Our Partners

To ensure the College meets its strategic ambitions and objectives key strategic priorities for each Mission 2030 pillar will be approved annually in the form of an Operating Plan. Progress in delivery of the Operating Plan will continue to be presented to each Board meeting.

The progress report presented to the October 2025 Board meeting highlighted that good progress is being made in all areas of Mission 2030. As detailed in exhibit 3, 50% of priorities received a green RAG status (target has been met), 50% amber RAG status (work has started but target is not yet realised) and no targets have been provided with a red RAG status (work has not started).

Exhibit 3: Mission 2030 Strategic Outturn Report



Source: Mission 2030 Strategic Outturn Report – October 2025

We are satisfied that appropriate arrangements are in place to oversee the delivery of Mission 2030 and that all areas of the strategy are progressing at a good pace.

Internal Audit

An effective internal audit service is an important element of an entity's overall governance arrangement. The College's internal audit service is provided by RSM. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the Governance Statement.

The annual internal audit report was presented to the Audit Committee in September 2025. This report confirmed that “The organisation has an adequate and effective framework for risk management, governance, internal control and economy, efficiency and effectiveness”. In addition, internal audit has not advised management of any additional disclosure requirements for the governance statement or any inconsistencies between the governance statement and information they are aware of from its work.

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 the achievement of operational objectives



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 developed a performance management framework which comprises updates on key performance indicators (KPIs) at each meeting of the Senior Leadership Team and Board for challenge and scrutiny. Updates on finance KPIs are also included as a standing item at each meeting of the Finance and General Purposes Committee.

The College has KPIs which are classified into two categories:

- Finance: measures include operating deficits, reliance on SFC income and cash days.
- Students: measures consider the achievement of credits, levels of applications received and student withdrawal rates.

On an annual basis, the College reviews its KPIs and targets to ensure they remain appropriate.

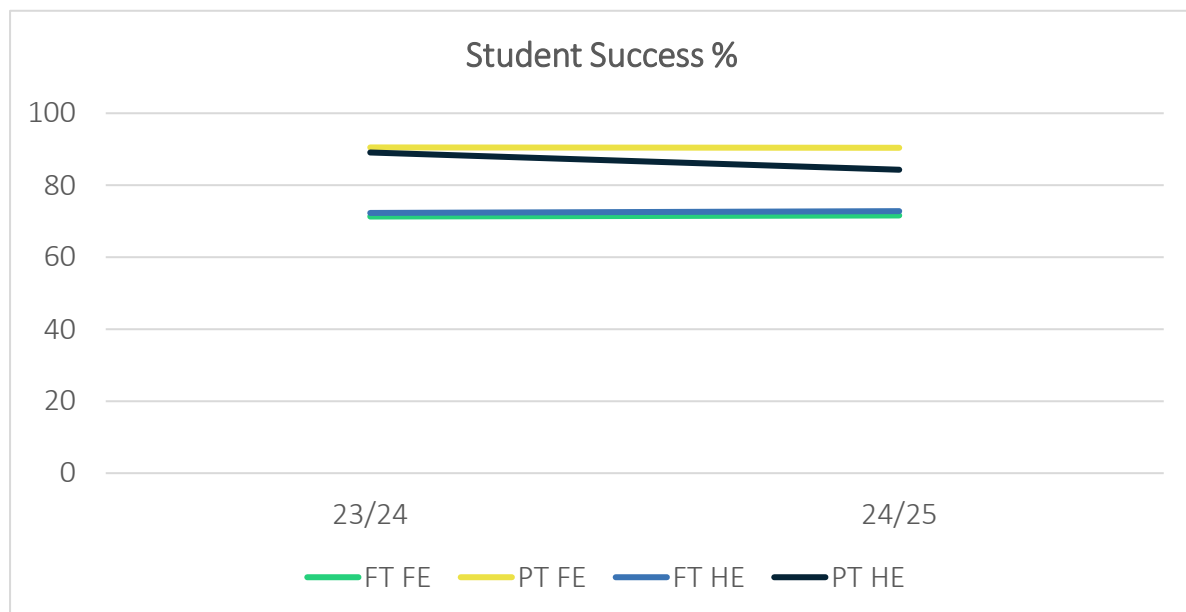
Through review of Board and Committee papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

Performance in 2024/25

The College's performance against key performance indicators shows that overall performance has improved since 2023/24. We have highlighted the key performance trends for 2024/25 below (whilst financial performance is detailed in the financial management section).

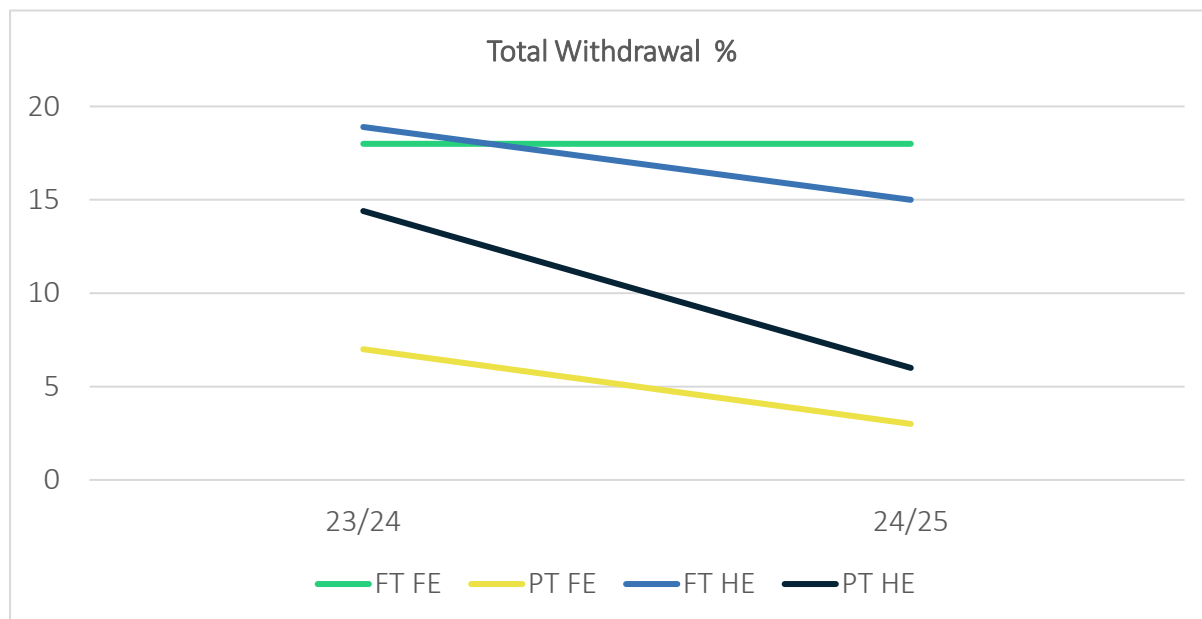
As highlighted in exhibits 4 and 5, the College has seen an increase in full time Higher Education and Further Education student success and decrease in early withdrawal in all student levels and modes of study compared to 2023/24. These outcomes can be directly attributed to the embedding of the College's self evaluation system which was designed to enable teaching teams to develop enhancements to improve student success.

Exhibit 4: Student success percentages



Source: Performance Update Reports and Annual Accounts

Exhibit 5: Withdrawals rates



Source: Performance Update Reports and Annual Accounts

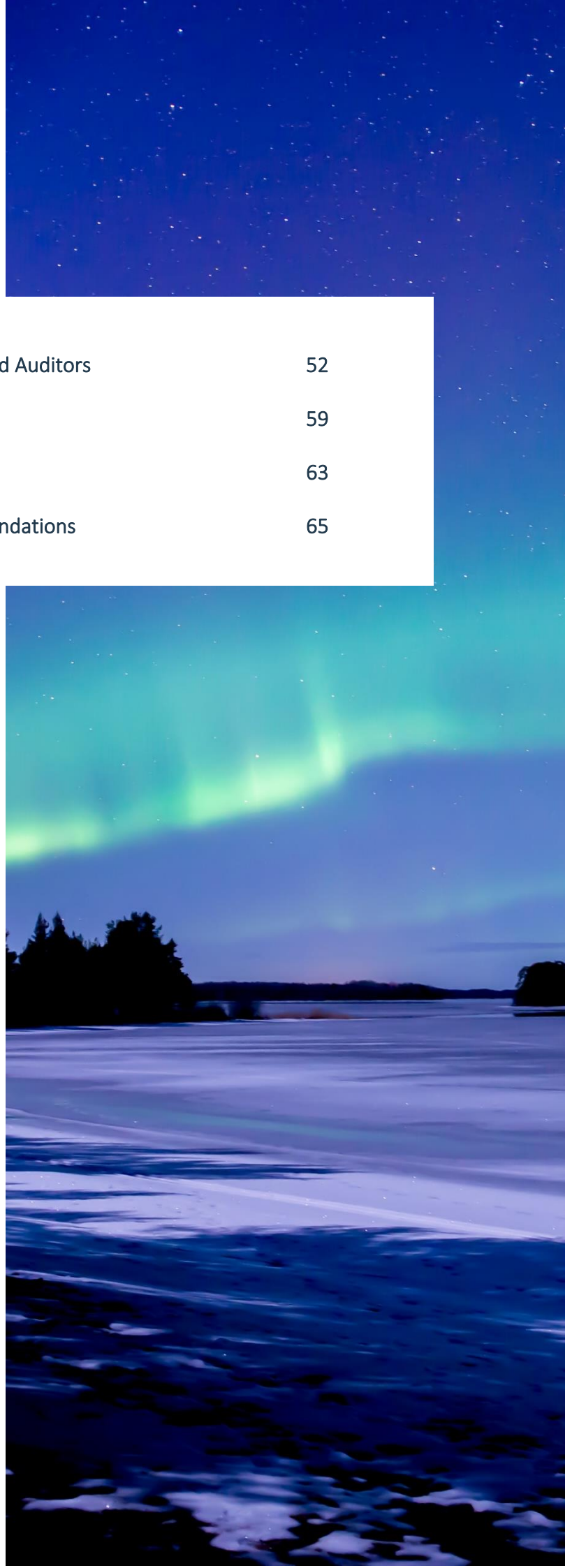
In line with SFC requirements, the College performed a student satisfaction survey in 2024/25. The responses included those from learners from each of the faculties and from a range of courses including full-time and part-time. The overall College experience satisfaction rate increased slightly to 97.4% in 2024/25 compared to 97% in 2023/24.

The College’s performance against key performance indicators for academic year 2025 shows that for the first time in a number of years, the student credits target of 27,800 has been exceeded through achievement of 27,826 credits. In addition, the college KPI’s continue to all exceed the Scottish sector average. Both these represent notable achievements in a year where the both the College and the sector faced a high level of financial challenge.

As described in the Financial Sustainability section, there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position alongside the significant financial pressures that the College is facing may impact on its ability to deliver curriculum activity or support students and staff in future years. This also presents a risk of deterioration in the College’s performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

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Appendix 1: Responsibilities of the College and Auditors

Responsibilities of the College

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

Area	College responsibilities
Corporate governance	<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>
Financial statements and related reports	<p>The Board has responsibility for:</p> <ul style="list-style-type: none">• preparing financial statements which give a true and fair view of the financial position of the College and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;• 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;• 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• 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. <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	College 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. It is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</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>Financial position</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"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</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.

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.

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.

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.

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.

Best Value

Ministerial guidance to Accountable Officers for public bodies and SPFM 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.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. 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:

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets provided advisory services to the College on VAT and PSA matters. We obtained clearance from our Engagement Lead, Ethics Team 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 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 nine years.

Audit fees

The total fees charged to the College for the provision of services in 2024/25 were as follows:

Fee element	2024/25	2023/24
Auditor remuneration (expected fee level)	44,550	42,750
Audit remuneration (above expected fee level for work on the College's new accounting system migration)	3,800	-
Audit remuneration (above expected fee level due to delays in the receipt of a complete ledger which reconciled to the accounts)	1,200	-
Pooled costs	(5,620)	(4,560)
Sectoral cap adjustment	(10,450)	(10,250)
Total audit fee	33,480	27,940
Non-audit services	6,080	7,400
Total fees	39,560	35,340

As outlined in our external audit plan, it is our policy to bill for overruns or scope extensions e.g., where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work. As detailed above, we experienced some delays in the receipt of a complete ledger which reconciled to the accounts. We have raised an additional fee of £1,200 to reflect the additional time required to work through this issue and delay.

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

Details of items corrected following discussions with management are as below.

Current Year Adjusted misstatements

No	Detail	Statement of	Balance Sheet	Impact on
		Comprehensive Income Dr / (Cr) £	Dr / (Cr) £	Reserves Dr / (Cr) £
1.	Internal recharges for course delivery not cancelled out	Tuition Fees and Education contracts 15,621 Other operating income 31,572 Other operating expenses (47,193)		-
2	Error in the College's land and buildings valuation		9,133,000	(9,133,000)
3.	Error in annual transfer from the revaluation reserve calculation			Revaluation Reserve 250,187 Income and Expenditure Reserve (250,187)
	Net impact on (income)/expenditure	0	0	0
	Net impact on net assets	0	9,130	0

Prior Year Adjusted misstatements

No	Detail	Statement of Comprehensive Income Dr / (Cr) £	Balance Sheet Dr / (Cr) £	Impact on Reserves Dr / (Cr) £
1.	Error in the annual transfer from the revaluation reserve calculation (2023/24 comparative)			Revaluation Reserve 250,187 Income and Expenditure Reserve (250,187)
	Net impact on (income)/expenditure	0	0	0
	Net impact on net assets	0	0	0

Unadjusted misstatements

We identified four exceptions during our audit which have remained uncorrected by management, as detailed below:

No	Detail	Statement of Comprehensive Income Dr / (Cr) £	Balance Sheet Dr / (Cr) £	Impact on Reserves Dr / (Cr) £
1.	Deferred capital grant release for non-compliant depreciation policy	Other operating income 40,559	Short term deferred capital grants (40,559)	
2.	Depreciation charge for non-compliant depreciation policy	Depreciation charge (40,708)	Tangible fixed assets 40,708	
3.	Write out of depreciation on revaluation for non-compliant depreciation policy	Depreciation charge (32,000)		Income and Expenditure Reserve 32,000
4.	Release of deferred income per extrapolated error identified in other operating income testing	Other operating income 18,945	Deferred Income (18,945)	
	Net impact on (income)/expenditure	(13,204)		0
	Net impact on net assets		(18,796)	0

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.	Pension disclosures – asset ceiling Note 20 to the accounts did not appropriately reflect the pension asset/liability position pre asset ceiling being used, the asset ceiling amount and the amount post the asset ceiling being applied separately.
2.	Related parties note There were two related parties identified where the transaction amounts disclosed did not agree to the transactions identified within the transaction listing.
3.	Bursary and Student Support Funds The note had been drafted before the finalisation of the FES return. Updated to correctly reflect the balance to be repaid to SFC as clawback.
4.	Remuneration report Update to the bandings for a number of individuals within the salary entitlement and pensions table and update to pro rate the real increase in CETV for individuals who had been in post part year.
5.	Annual Governance Statement Update to align the narrative in the Annual Governance Statement with that within the Composition of the Board Section in the Directors Report.
6.	Accounting Policies Additional disclosure added for the change in the College's depreciation accounting policy, to comply with FRS 102 and the FE SORP.
7.	Capital Commitments Addition of Capital Commitments note.
8.	Staff Costs note Update to reflect senior post holders throughout the year.
9.	Performance Report Minor changes for inconsistencies noted throughout.

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. Journals and ledger processes – new ledger system	Other deficiency
<p>Observation</p>	<p>It was noted during our journals process walkthrough and our journals testing of transactions posted in the College’s new ledger after February 2025 that there were instances that journals were posted and authorised by the same individual, which is not in line with the College’s journal authorisation policy. In addition, it was noted that the ledger had not yet been closed down for the periods since implementation of the new system (February 2025).</p> <p>We were able to obtain supporting evidence for journals identified that had been authorised and posted by the same individuals and did not identify any instances of management override of controls from these journals. Management also informed us that journals are reviewed as part of the management accounts process where any unusual journals would be identified, which acts as a compensating detection control.</p>
<p>Implication</p>	<p>There is a risk that inappropriate or fraudulent journals could be posted to prior periods which aren’t being subject to review and proper journal authorisation.</p>

1. Journals and ledger processes – new ledger system		Other deficiency
Recommendation	The College should ensure that journals are subject to independent authorisation, and that accounting periods are subject to monthly closedown in the ledger.	
Management response	We have updated our internal processes to ensure journals are posted and authorised by different individuals, and we will include a check as part of our Management Accounts completion process. Responsible officer: VP Corporate Services Implementation date: 31 December 2025	

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. Timeliness of receipt of accounts (other observation)	
Recommendation	We recommend that a clear timetable is produced and observed to make accounts available in line with agreed and organised deadlines.
Implementation date	June 2025
Ongoing	<p>We received draft financial statements at the start of the audit process as agreed. The College had informed us that the draft Performance Report would not be available for review at this time but we were not provided with a clear timescale of when we would receive this.</p> <p>We continue to recommend that these are received on a timely basis going forward.</p> <p>Revised Implementation Date: June 2026</p>
Updated management response	<p>The timetable for completion of the accounts will be reviewed and updated, and will aim to ensure the accounts are available within a reasonable period.</p> <p>However, the capacity of the finance team is limited and can be impacted by other deadlines and external factors.</p>

2. Receipt of valuation report (other observation)	
Recommendation	<p>We recommend that a clear timetable and/or deadlines are agreed in advance with the valuer to ensure that valuation outputs are received in a timely manner.</p> <p>We also recommend that there is more evidence of management’s challenge of the outputs provided by the valuer.</p>
Implementation date	June 2025
Closed	During 2024/25 the College procured a new external valuer, Ryden. The valuation report was provided when the audit commenced.

3. IT general controls (other deficiency)	
Recommendation	We recommend that the specific IT points identified are addressed.
Implementation date	February 2025
Closed	The College’s new Finance system went live on 01.02.25. The Digital Services manager worked closely with the software provider to ensure access to the new system was appropriate for different levels of users, and password controls were appropriate.



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