Annual Audit Report

to the Board of Management and the Auditor General for Scotland

Ayrshire College

Year ended 31 July 2018

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This report has been prepared in accordance with our responsibilities as appointed auditors as set out in Audit Scotland's Code of Audit Practice. Reports and letters prepared by the auditor and addressed to the College are prepared for the sole use of Ayrshire College and we take no responsibility to any member or officer in their individual capacity or to any third party.

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19 December 2018

Dear Members

Annual Audit Report – Year ended 31 July 2018

We are pleased to present our Annual Audit Report for the year ended 31 July 2018. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 12 June 2018. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of the finance team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me.

Yours faithfully

Lucy Nutley
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of Ayrshire College ('the College') for the year ended 31 July 2018, and forms the basis for discussion at the Audit Committee meeting on 27 November 2018.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice ('the Code') issued by Audit Scotland. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements	We issued an unqualified opinion on 11 December 2018, without modification, on the financial statements.
Opinion on regularity	We issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended .
Opinion on other requirements	We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation
Wider scope work	We have concluded as follows against each of the four wider scope dimensions: • The College has effective arrangements, including budgetary control, that help the Board members scrutinise finances; • The College has adequate financial planning arrangements in place. The College has identified a long term funding gap of £11.89m which primarily consists of its contractual PFI obligations and increasing staff costs. A Financial Sustainability Plan has been submitted to SFC for approval and it is anticipated that savings, through voluntary severance will be implemented in 2018/19; • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board; and • The College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have completed our work on the financial statements and wider scope work for the year ended 31 July 2018.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2018. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

1. EXECUTIVE SUMMARY (CONTINUED)

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set materiality at the planning stage of the audit at £901,000 using a benchmark (2%) of Gross Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1,042,000, using the same benchmark.

Threshold	Initial threshold £'000	Final threshold £'000
Overall materiality	901	1,042
Performance materiality	720	834
Trivial threshold for errors to be reported to the Audit Committee	27	31

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Performance Materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherent risk level assessed. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

2. AUDIT OF THE FINANCIAL STATEMENTS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 8 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Management override of controls	**Description of the risk** In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Satisfactory assurance has been gained in respect of presumed risk of management override. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Revenue recognition

Description of the risk

There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised.

The presumption is able to be rebutted, which we have done for the College's grant income, as it carries very low inherent risk of fraud or error in its recognition. However the risk dos apply to non-grant income generated by the College.

How we addressed this risk

We addressed this risk through performing audit work over

- The design an implantation of controls management has in place to ensure income is recognised in the correct period;
- Cash receipts around year end to ensure they have been recognised in the appropriate year;
- The judgements made by management in determining when grant income is recognised; and
- Obtaining counterparty confirmation for major grant income.

Audit conclusion

Satisfactory assurance has been gained in respect of the presumed risk of revenue recognition. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Valuation of land and buildings

Description of the risk

The financial statements contain material entries for land and buildings, totalling £101.2m as at 31 July 2017. Land and buildings are due to be revalued at 31 July 2018. It is likely that revaluation amounts will be material to the financial statements. Valuations will be performed by an expert valuer.

As a result of the move to the new Kilmarnock campus in 2017, the College's existing freehold interests in two campuses in the Kilmarnock area are in the process of being sold

The College has two leased campuses which it is in the process of exiting. There is also a third leased campus at Nethermains. All three of these campuses have a level of provision for dilapidations and/or future lease payments

How our audit addressed this area of management judgement

We have addressed the risk by

- Examining the professional qualifications of the valuer;
- Challenging and substantiating the assumptions and the appropriateness of the date of valuations used by the valuer;
- Ensuring valuations and impairments have been completed on the appropriate basis and that movements are in line with expectation;
- Consider the appropriateness of the valuation for assets held for sale and whether they should be revalued upwards or downwards; and
- Review of property related provisions in the accounts ensuring that the requirements for recognition for a provision have been met and the amounts provided have been fairly stated

Audit conclusion

A full valuation of the estate was performed as at 31 July 2018, assessing a value of £108m. This, and the related increase in the value of land and buildings has been appropriately reflected in the financial statements. Our audit work provided satisfactory assurance in respect of the valuation of land and buildings. We have no matters to report.

The value of Holehouse Road in the accounts reflects the expected value from sale, which has reduced since 31 July 2017. As such, an impairment in value has been assessed and recorded in the financial statements. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Area of focus

Enhanced risks can arise from significant events occurring in relation to the period under review. As part of our planning procedures we considered whether any significant events had occurred in relation to the period under review that would represent an enhanced risk that required additional focus during the audit.

Valuation of Pension Liabilities

Description of area of focus

The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme. The College's share of the SPF's underlying assets and liabilities is identifiable and is recognised in the accounts.
Given the scale of the liability recognised, a misstatement in the reported position could be material to the financial statements.

How we have addressed this risk

We have addressed the risk by

- Considering the arrangements put in place, including the controls, for making estimates in relation to pension entries in the financial statements; and
- Consider the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts

Audit conclusion

Our audit work has provided satisfactory assurance over pension valuations. We have no matters to report.

Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2017/18 , appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 22 October 2018 at the start of audit fieldwork. The draft annual report was received following fieldwork on 6 November 2018. This was earlier than had been delivered during the 2016/17 audit, but given the earlier Audit Committee date set for 2018, has significantly compressed the timing of the audit team for review. Both draft financial statements and draft annual report were of an adequate quality.

Producing quality supporting working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers provided for audit were of a good standard and staff were responsive to our requests during the audit.

Significant matters discussed with management

During the course of the audit the financial sustainability of the College and the proposed business case and associated discussions with the SFC were discussed with management. See p15 for further details and conclusion of wider scope considerations of financial sustainability.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management and staff.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

No internal control deficiencies have been identified during the course of the audit.

4. SUMMARY OF MISSTATEMENTS

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £27k.

Financial amendment identified by management

Draft accounts were presented for audit by the College on 22 October. On 24 October, additional information was received by the College regarding the expected valuation of the land sale at the former Holehouse Road campus. The change in valuation was not material and management reported a financial adjustment to the draft accounts as follows:

	Statement of Comprehensive Income		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Impairment of buildings (Holehouse Road)	50			
Cr: Land and Buildings				50
Being adjustment to impairment of land value at former Holehouse Road Campus				

Disclosure amendments

A number of disclosure amendments were discussed and agreed with management, including:

- Performance report disclosures in line with SFC guidance
- Governance report disclosures of estates strategy
- Remuneration and Staff report sickness data

5. WIDER SCOPE
FINANCIAL MANAGEMENT

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

Our conclusion
Ayrshire College has effective arrangements, including budgetary control, that help Board members scrutinise finances.

Financial performance
FE/HE SORP position

	2017/18 £'000	2016/17 £'000
Operating income	49,598	48,275
Staff costs	(32,905)	(31,585)
Operating expenditure	(19,011)	(19,431)
Operating Deficit for the year (FE/HE SORP basis)	**(2,318)**	**(2,741)**

Staff cost increases are primarily driven by the outcome of National Bargaining, which has raised salaries for lecturing and support staff. This increase is reflected across the College sector in Scotland.

The above table shows the financial performance of the College for 2017/18 and 2016/17 under the FE/HE SORP. Despite a deficit being shown over both years:

- The College achieved its financial targets and spending was in line with the plan;
- There were no significant changes to the reported position during the year; and
- The student credit target was exceeded confirming the level of funding in the financial statements.

Adjusted operating position

The table above sets out the financial position in accordance with the SORP requirements. The table overleaf reflects the 'adjusted operating position' as required by the Accounts Direction set by the SFC. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions. Full details of the adjustments included are shown in the Performance Report within the Annual Report and Financial Statements.

5. WIDER SCOPE
FINANCIAL MANAGEMENT (CONTINUED)

	2017/18 £'000	2016/17 £'000
Surplus/(deficit) before other gains and losses	(2,553)	(2,714)
Add back:		
- Depreciation (net of deferred capital grant release)	2,256	1,943
- Exceptional non-restructuring costs	1,250	1,077
- Non-cash pension adjustment	2,090	1,623
Deduct:		
- Non government capital grants from ACF	(1,881)	(374)
- Loan repayments	(2,170)	(1,882)
Adjusted operating deficit	**(1,008)**	**(327)**

The table above indicates that once the non cash and other applicable adjustments are made, the College has achieved a deficit in each year with a significant increase in the deficit recorded for 2017/18. In both years, large impairments to the value of Holehouse Road have been recorded, reflecting the value likely to be obtained (and retained) by the College following the land sale. The operating deficit is further affected in 2017/18 by the significant grant obtained from the Ayrshire College Foundation. This is not expected to be repeated in subsequent years.

Impact of Depreciation Budget

The Statement of Comprehensive Income and Expenditure is prepared under the FE/HE SORP, which does not permit the inclusion of the non-cash budget for depreciation. Colleges may show a deficit equivalent to net depreciation as a result of having to meet Government accounting rules.

	2017/18 £'000	2016/17 £'000
Operating Surplus/Deficit for the year (FE/HE SORP basis)	(2,553)	(2,714)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,256	1,943
Operating (Deficit)/Surplus on Central Government accounting basis	(297)	(771)

The table above shows a deficit, albeit significantly decreased from the prior year deficit, when the impact of the depreciation budget is taken as the only adjusting factor to the financial position. The operating position table at the top of the page reflects further adjustments that also show an operating deficit. The deficit on central government accounting basis is primarily due to the fact that PFI payments for the Kilwinning Campus are not funded through SFC funding, but cash reserves. Therefore, the College is currently considered to be operating sustainably within its funding allocation.

5. WIDER SCOPE
FINANCIAL MANAGEMENT (CONTINUED)

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangement in place at the College. Our work consisted of a review of budget monitoring reports and committee papers and attendance at committees. Overall, we consider that the Board of Management obtains regular and timely financial information that reflects the actual financial position.

We noted that budget reports accurately predicted the financial position and were produced on a timely basis and considered by the appropriate committee. The Business, Resources and Infrastructure Committee considers the management accounting pack regularly, reporting to the Board of Management. Minutes of the meeting document the level of challenge to the financial performance.

Internal controls

As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have also considered the work of internal audit, from individual reviews of financial systems and their annual audit opinion on the control framework in place at the College. Internal auditors Scott-Moncrieff provided a high level of assurance on arrangements to send budget returns to the Scottish Funding Council (SFC).

We conclude that the processes and controls in place at the College are operating effectively. The College has all the expected control, risk, performance and financial arrangements in place. There are a series of regularity documents including standing orders, articles of governance, code of conduct, and financial regulations intended to ensure regularity of transactions.

Prevention and detection of fraud and irregularity

Management and the Audit Committee, as those charged with governance also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We have a responsibility to review the College's arrangements for the prevention and detection of fraud. Our audit work was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the arrangements in place to be satisfactory and identified no material misstatements resulting from fraud or irregularity.

National Fraud Initiative

The College is due to take part in the 2018/19 National Fraud Initiative (NFI) exercise, following their participation in 2016/17. Data was submitted in line with timescales and the Audit Committee have been informed of the exercise. We will report on any findings or issues arising from NFI during the 2018/19 audit process.

5. WIDER SCOPE
FINANCIAL SUSTAINABILITY

Dimension
Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

Our conclusion
The College has adequate financial planning arrangements in place. The College has identified a long term funding gap of £11.89m which primarily consists of its contractual PFI obligations and increasing staff costs. A Financial Sustainability Plan has been submitted to SFC for approval and it is anticipated that savings, through voluntary severance will be implemented in 2018/19.

Identified significant risks to our wider scope work

As part of our planning procedures we considered whether there were significant risks that would impact on any of the four areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope work and how we addressed the risk.

Financial Sustainability

Description of the risk
The College has identified a specific risk over the funding of the Kilwinning campus PFI contractual payments after 2017/18. The Kilwinning campus PFI has a revenue cost of approximately £1.4m per annum, which unlike the NPD model, is unsupported by specific funding. The financial challenge of funding these payments has been highlighted in five year financial plans submitted to the SFC.

How we addressed the risk

We have addressed the risk by:
- Reviewing the forecast financial position in the 5 year financial plans submitted to SFC
- Reviewing alternative plans being considered by the College to ensure the affordability of the PFI payment
- Reviewing the financial reporting arrangements in place at the College
- Discussion with management
- Review of future plans submitted to the SFC by the College

Wider scope conclusion
The College and its Board are aware of the financial challenges and associated risks that it faces. A funding gap of £11.89m has been identified over a 5 year period principally as a result of the contractual PFI capital and interest payments of £1.4m per annum in respect of the Kilwinning Campus along with increasing staff costs as a result of National Bargaining.

The College has engaged in discussions with the SFC and has prepared a detailed Financial Sustainability Plan to obtain additional strategic funding in 2019/20 and 2020/21, with further funding for a significant voluntary severance scheme in 2018/19. The rationale of the plan is to reduce operational costs to enable the affordability of the contractual PFI payments from core funding. The Financial Sustainability Plan has been submitted to the SFC for approval, however, until the plan is formally agreed, there is a risk that additional funding will not be made available and Ayrshire College is not financially sustainable.

5. WIDER SCOPE
FINANCIAL SUSTAINABILITY (CONTINUED)

Financial Planning

The College prepares a 5 year budget and forecast which is scrutinised by the Business, Resources & Infrastructure Committee (BRIC) and approved by the Board. The plan includes assumptions about inflation in the short and medium term and highlights other financial stability risks. The College is very clear on the risks to financial sustainability it faces and the uncertainty of funding over the medium and long term associated with the funding support impacts of national bargaining and funding PFI payments at the Kilwinning Campus.

A summary of the College's five-year forecast is included in the table below. This is based on the FFR submitted to the SFC, the College does not use different assumptions for its Board reporting.

	Forecast 2018/19 £'000	Forecast 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000
Total Income	54,484	51,638	51,334	51,384	50,365
Staff costs	33,767	34,794	35,483	36,186	36,903
Total expenditure	54,380	53,305	53,798	54,662	55,543
Operating surplus/(deficit) before other gains and losses	**104**	**(1,668)**	**(2,464)**	**(3,278)**	**(5,179)**
Operating position adjustment (e.g non cash and exceptional items)	119	131	131	131	131
Adjusted operating surplus /(deficit)	**223**	**(1,549)**	**(2,345)**	**(3,159)**	**(5,060)**

The cumulative deficit over the five year plan, including PFI payments is £11.89m. The projected deficits include £1.4m each year in relation to the Kilwinning contractual PFI capital and interest payments which are currently unfunded, which are compounded by increasing staff costs as a result of National Bargaining and annual staff pay awards.

As we reported in our 2016/17 Annual Audit Report, the College has an annual commitment for contractual PFI capital and interest payments over this period, totalling approximately £1.4m per annum. The funding of these payments has been identified as an individual significant risk by the College. During 2017/18, following discussion with the SFC and Scottish Government, the College was informed that in light of the College's 'unique position' (being the only FE College in Scotland with unfunded PFI buildings), it would be able to retain the proceeds from sale of land at Holehouse Road in 2018/19, instead of the sale proceeds being retuned to the Scottish Government. The expected value of this sale is valued at £1.05m, which is less than the contractual commitment and therefore the remainder will have to be funded by the College. No funding beyond 2018/19 has been agreed for the PFI capital and interest payments.

The College has continued to engage with the SFC on forming a plan that will enable them to reduce operating costs and return to financial sustainability. In June 2018, the College was advised by the SFC that a formal plan had to be submitted in order to obtain funding for voluntary severance. Following discussions, in October 2018, the College submitted a two year (2019/20 to 2020/21) Financial Sustainability Proposal to the SFC as part of their planning processes. This document set out a range of options around additional financial support for the PFI capital and interest payments and differing levels of voluntary severance costing between £569k to £1.9m. Subsequent discussions with the SFC have influenced the final plan that has now been submitted to the SFC.

During the drafting process, the College has sought staff engagement in the proposed plans. As part of the annual 'Principal Presentations' for 2018, the Principal when addressing staff at each campus brought out the finances of the College in the future and the potential implications of funding shortfalls.

A Financial Sustainability Plan, was approved by the Board on 29 November 2018 and was submitted to the SFC on 30 November 2018. The College hopes to have a response from the SFC approval of the Plan imminently, in order that a voluntary severance scheme can be launched in January 2019.

The College has requested that the SFC provide strategic support of £0.7m each year for a two year period (2019/20 and 2020/21) along with £1.3m to fund a voluntary severance plan in 2018/19 as part of a significant organisational review across the College. The College anticipates the reduction in headcount from the organisational review will provide annual savings of £1.66m in staff costs. The overarching rationale of the plan is to reduce expenditure to ensure the financial sustainability of the College.

At the time of writing, the plan had not been formally acknowledged or approved by the SFC. The college are awaiting a response from the SFC.

Asset Management and Estates Strategy

The College has developed an Infrastructure Strategy for 2017 – 2020. The key aims of this strategy are to provide efficient flexible fit for purpose estate across all campuses with industry standard equipment and an innovative, secure ICT infrastructure. Funding is sought from the Ayrshire College Foundation to support the capital investment with £1m funding included within the forecast for 2018/19. Priorities include further investment for improvements of the Dam Park buildings in Ayr and ICT investment in curriculum and service areas.

National estates survey

Gardiner & Theobald were appointed by the Scottish Funding Council in January 2017 to provide a summary of the conditions of the estates within the Scottish Further Education sector, being the first independent review of the college estate in Scotland for 10 years. Across Scotland the estimated net total backlog of maintenance and renewals cost is £163 million excluding contingencies, any related operational and management costs of the colleges, professional fees, VAT, optimism bias and inflation allowance. When taking these items into account, the resulting total gross estimated backlog is £363 million. 10% of these costs were defined as urgent, requiring action within the next year, with the majority of the costs requiring action within 3-5 years.

The Scottish Funding Council is working with the Scottish Government and Scottish Futures Trust to produce a framework for college sector estate development to manage competing demands for estate development.

The survey showed an estimate of £4.7 million of costs over the 5 year period from 2017-18 to 2022-23 for the Ayrshire College estate, with £1.8m being identified as urgent. The most significant urgent costs identified relate to Dam Park Campus in Ayrshire, this is in line with the Infrastructure Strategy for the College with some work completed in this area in 2017/18 with a new roof and windows installed.

5. WIDER SCOPE
GOVERNANCE AND TRANSPARENCY

Dimension

Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Our conclusion

Ayrshire College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board.

Governance arrangements

Our work in this area has considered the overall governance arrangements in place at the College, reviewed the financial and performance reporting to the Board, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also attended Audit Committees during the year.

Financial papers submitted to committees are relevant and timely. Each paper has a summary setting out the purpose of the paper and the action required by the members. Minutes are understandable and contain detail of discussions and rationale for decision making.

During 2017/18, the Board consisted of 17 members, 10 female (including the Principal) and 7 male. The Board continues to work towards a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Bill which was introduced by the Scottish Parliament in June 2017 with an implementation date of 2022.

The committees comprise of, and are chaired by Board members. The Principal is a member of the key committees with the exception of the Audit Committee. In addition, the Chair of the Board is also not permitted to be a member of the Audit Committee. Appropriate College officers attend committees and present reports as required.

Governance Statement

As part of our audit we have read the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework.

The governance statement confirms the college's compliance with the 2016 Code of Good Governance for Scotland's Colleges.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. We also consider that the governance statement has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by Scott-Moncrieff. Internal audit have attended Audit Committees throughout the year and have produced 7 reports to support the overall Head of Internal Audit Opinion.

Transparency

Transparency means that service users and the public have access to understandable information about how the College is making decisions and using its resources. There is a commitment to transparency, with the minutes and papers of the Board of Management and key committees being available on the website.

5. WIDER SCOPE
VALUE FOR MONEY

Dimension

Value for money concerns using resources effectively and continually improving services.

Our conclusion

Ayrshire College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Performance management

The College delivered its Regional Outcome Agreement (ROA) target credits, with improvements in student attainment and attendance. There is close monitoring of the delivery of the ROA, financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget objectives to be achieved. Through delivery of the 2017/18 budget there is clear evidence that the College understands cost drivers and is in control of costs.

Regularity

As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements. Regular expenditure and income is that which has been incurred / obtained in line with guidance issued by the Scottish Ministers and the terms and conditions of funding of the Scottish Funding Council.

The College has arrangements to monitor the requirements of the Scottish Funding Council, Audit Scotland and other regulatory or advisory bodies to ensure it complies with the terms and conditions of funding including regular reporting of financial and operational performance to the Board and its committees.

Our review found an effective control environment exists over regularity of expenditure and receipts. No instances of non-compliance with Scottish Funding Council terms and conditions were noted.

6. OUR FEES

Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Audit Strategy Memorandum, presented to the Audit Committee in May 2018. Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2017/18	Final fee 2017/18
Auditor remuneration	£26,580	£26,580
Pooled costs	£1,700	£1,700
Contribution to Audit Scotland costs	£1,480	£1,480
Total Fee	**£29,760**	**£29,760**

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

APPENDIX A INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.