



Annual Audit Report

to the Board of Management and the
Auditor General for Scotland

West College Scotland

Year ended 31 July 2018





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Appendix A – Independence

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 West College Scotland and we take no responsibility to any member or officer in their individual capacity or to any third party.

The Joint Audit and Finance & General Purposes Committee
West College Scotland
Paisley Campus
Renfrew Road
Paisley
PA3 4DR

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 24 May 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 College staff during our audit.

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

Yours faithfully



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We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of West College Scotland ('the College') for the year ended 31 July 2018, and forms the basis for discussion at the Joint Audit and Finance & General Purpose Committee meeting on 20 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 final review of the annual report and statutory accounts, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We issued an unqualified opinion on 13 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. A long term operational funding gap has been identified by the College as well as a need for significant capital investment. Efficiency saving requirements have been assessed over a five-year period and work has begun to implement identified efficiency savings;
- 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.

Internal control recommendations and misstatements

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 audit 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 May 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 £1,155,000 using a benchmark (2%) of Gross Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1,236,000, using the same benchmark.

Threshold	Initial threshold £'000	Final threshold £'000
Overall materiality	1,155	1,236
Performance materiality	924	989
Trivial threshold for errors to be reported to the Joint Audit and Finance & General Purposes Committee	34	37

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 does 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 and implementation 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.

Valuation of land and buildings

Description of the risk

The financial statements contain material entries for land and buildings, totalling £101m as at 31 July 2017. Land and buildings are due to be valued 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.

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; and
- Assess whether the report produced by the valuer has been appropriately reflected in the accounts

Audit conclusion

A full valuation of the estate was performed as at 31 July 2018, assessing a value of £105.7m. This, and the related increase in the value of land and buildings of £10.3m 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.

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.

Change of Principal

Description of area of focus

There is a need for oversight of governance, required to be reported upon in the governance statement and arrangements that are required to be in place to ensure the Accountable Officer that signs the Annual Report and Financial Statements is fully aware of governance arrangements within the College.

How we have addressed this risk

We have addressed the risk by

- Considering the arrangements put in place for an Accountable Officer signature in the financial statements; and
- Confirming the disclosures required in the financial statements in relation to the resigning officer, including remuneration, are complete and appropriate

Audit conclusion

A new Principal, Elizabeth Connolly, was appointed on 3 September 2018. Elizabeth was formally Vice Principal of Corporate Development at West College Scotland for the year 2017/18. Through her previous role and handover processes, Elizabeth and the College have determined she has the necessary assurances required to sign the financial statements as Accountable Officer.

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 6 September 2018 in advance of the audit fieldwork commencing on 10 September 2018. The draft annual report was received during the course of the fieldwork, as agreed in the audit timetable. Both draft financial statements and draft annual report were of a good 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.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Significant matters discussed with management

- **Review of useful economic life of revalued assets**

The revaluation report obtained as part of the formal revaluation of asset values, includes an estimation by valuers of the remaining life of each asset valued. At this point, the revalued element can be depreciated over the new useful life obtained with the original value being depreciated over the original life, or the full value of the asset, including revaluation, can be depreciated over the new useful life. The College has adopted the former policy, which can lead to a number of different depreciation elements for long standing assets. FRS102 requires that management review both policies and form a judgement over the most practical policy, ensuring that the most relevant useful life is used for the depreciation of the asset. No review has been performed by the College, and while it would not cause a material financial difference to amend the policy, there should be a management review. This is being taken forward by management.

- **Review of project accruals**

Following on from prior year discussion it was acknowledged that the College has taken steps to ensure that accruals are only recognised for estate projects once the project has commenced. Any change to the budgeted cost for the project after it has commenced should be reflected in the amount accrued to ensure the accrual is adequate to cover the estimated final cost. This is being taken forward by management.

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.

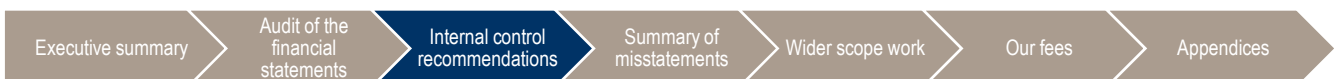


3. INTERNAL CONTROL RECOMMENDATIONS

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

There were no adjusted or unadjusted misstatements identified during the course of the audit above the trivial threshold of £37,000.

Disclosure amendments

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

- £10m gain on land and buildings revaluations disclosed within Other Comprehensive Income
- Inclusion of details of governance arrangements for change of Principal
- Disclosure of Post Balance Sheet event for property held for sale

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

West College Scotland 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	58,724	55,236
Staff costs	(41,878)	(39,531)
Operating expenditure	(19,916)	(18,216)
Operating Deficit for the year (FE/HE SORP basis)	(3,070)	(2,511)

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.

Operating expenditure for 2017/18 includes £0.6m cost of voluntary severance packages from a programme initiated by the College to increase efficiencies and reduce staff costs going forward. Other movements include an increase in estate maintenance expenditure of £1.5m which was funded by the SFC and a reduction of £0.4m in administration costs as the College looked to fund the voluntary severance scheme.

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 income / expenditure spending was in line with the agreed budget;
- There were no significant changes to the reported position during the year; and
- The student credit target was met 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	(3,070)	(2,511)
Add back:		
- Depreciation (net of deferred capital grant release)	2,980	2,987
- Non-cash pension adjustment (service cost)	1,241	767
- Non-cash pension adjustment (interest cost)	732	649
- Loss on disposal of assets	153	-
Deduct:		
- Non-government capital grants	(1,529)	(1,216)
- Loan repayments	(488)	(658)
Adjusted operating surplus	19	18

The table above indicates that once the non cash and other applicable adjustments are made, the College has achieved a modest operating surplus in the current and prior year. This demonstrates that the College has operated within its budget for the 2017/18 and 2016/17 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 Deficit for the year (FE/HE SORP basis)	(3,070)	(2,511)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,980	2,987
Operating (Deficit)/Surplus on Central Government accounting basis	(90)	476

The table above shows a 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 bring the final position to an operating surplus. Therefore the College is 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 Finance and General Purposes 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). They concluded that The College *'has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks.'*

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

West College Scotland has adequate financial planning arrangements in place. A long-term operational funding gap has been identified by the College as well as a need for significant capital investment. Efficiency saving requirements have been assessed over a five-year period and work has begun to implement the identified efficiency savings.

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 that in order to deliver a balanced budget for 2018/19 and beyond, it will require to make significant savings over the 5 year period from 2018/19.

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 the financial and resource implications of any voluntary severance scheme proposed to be run by the College;
- Reviewing the financial reporting arrangements in place at the College; and
- Discussion with management

Wider scope conclusion

The College and its Board have a clear view of financial challenges and long term risks faced. A funding gap of £5m has been identified by the College over the next five years. It should be noted that if the SFC financial planning assumptions are applied the funding gap reduces to £3m over the same five year period. Efficiency savings have been implemented and the College is now looking towards longer term measures, such as voluntary severance schemes, to address the funding gap. Discussions are ongoing with the SFC to confirm the required level of savings to be made and to implement the agreed Transition Plan.

The College estate requires significant capital investment to bring the current estate up to condition B standards (£33m over the next 10 years) or approximately £200m to replace both the Paisley and Greenock campuses. Outline business cases have been submitted to the Scottish Funding Council for replacement of the two campuses, but to date, these have not progressed to full business cases. There is a risk that without further revenue funding to support estates maintenance or capital funding to support replacement, the financial position of the College may deteriorate.

5. WIDER SCOPE FINANCIAL SUSTAINABILITY

Financial Planning

The College prepares a 5 year budget and forecast which is scrutinised by the Finance and General Purposes Committee 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 ending of ESF funding, the funding support impacts of national bargaining and estates maintenance funding.

A summary of the College's five-year forecast is included in the table below.

	Forecast 2018/19 £'000	Forecast 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000
Total Income	57,483	57,913	57,913	56,286	56,286
Staff costs	42,519	42,749	42,713	40,943	41,346
Total expenditure	14,516	14,613	14,501	14,435	14,463
Operating surplus before adjustments (including depreciation)	447	551	699	908	478
Net depreciation spend	1,639	1,639	1,690	1,639	1,639
Projected underlying operating result	8	12	10	19	39
Efficiencies required to generate break even position	1,200	1,100	950	750	1,200

The table above indicates a funding gap has been identified of on average £1m each year for the 5 year period being forecast. With staff costs contributing around 74% of overall expenditure, this is the area identified by the College where potential longer term efficiencies could be made and as such a further voluntary severance programme is planned for 2018/19, with an estimated cost of at least £500k, that will lead to ongoing savings. At this point it is difficult to quantify the level of ongoing savings that will be achieved, as this will depend on the salary costs involved, but estimates have been factored into the forecast. Overall the College estimates that it will incur an accounting deficit of around £2.4m each year over the 5 year period being forecast with an underlying operating result of between £8k to £39k.

The College five-year plan forms the basis of the Financial Forecast Return (FFR) required to be submitted by the SFC annually. Generally, the same assumptions have been used in both. The SFC assumptions would reduce the estimated efficiencies required to be made by the College from 2021 onwards. The key differences are in relation to;

- Grant in Aid which would result in additional income in years 2021 and 2022. A reduction in credit would be forecast in 2023 along with an assumption of a new funding distribution model. This mainly relates to ESF activity ending but SFC assumptions would result in an increase of £104k of additional funds; and
- Annual pay award is assumed to be 2% per SFC guidance. The College have assumed pay awards to be in line with Scottish Government Public Pay Sector Policy, which awards larger increases for the lower paid and smaller increases for higher paid staff. In total, the effect of this is to give a higher pay award presumption for the College.



5. WIDER SCOPE FINANCIAL SUSTAINABILITY

Asset Management and Estates Strategy

Included in the operating costs in the previous table, are significant maintenance costs for the College estate. West College Scotland operates from three primary locations in Clydebank, Greenock and Paisley across 12 operational buildings. Of this, only four buildings are graded at level 1 (excellent) for functional suitability. Seven buildings, at the Greenock and Paisley campuses require major repair or replacement. Current estimates of cost to repair and maintain the Greenock and Paisley campuses at an acceptable condition are £20m and £11m respectively, spread over the next 10 years.

The College submitted outline business cases for the replacement of the Paisley and Greenock campuses to the Scottish Funding Council in October 2016 and October 2017 respectively. The estimated investment required to replace both campuses is approximately £200m. While there is continuing engagement with the SFC on progressing the outline business cases, there has been no affirmative response to date.

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 £21.3 million of costs over the 5 year period from 2017-18 to 2022-23 for the West College Scotland estate, with £1.5m being identified as urgent. The most significant urgent costs identified relate to the Tower at Greenock, Finnart Street (£409k) and Renfrew South and Inchinnan North buildings at Paisley Campus (£377k and £253k respectively). This is consistent with the College's own estimates and Estates Strategy.

Priority maintenance funding of £3m has been allocated to the College for 2018/19 and this level of funding has been assumed to be available for one year only with the SFC FFR advising this will then return to 2017/18 levels from 2019/20 onwards. The College intends to use this funding in agreement with the SFC to address the areas of priority raised by the report in conjunction with estate projects that have been identified by the College itself to support a long term approach of the estates strategy.

The College estate requirements cannot be met through the SFC core funding. If the condition of the estate deteriorates to the extent that students cannot be attracted, there is likely to be a reduction in student numbers, which will in turn reduce the funding received by the College.



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

West College Scotland 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, a review of the financial and performance reporting to the Board, and a review of the minutes of Board 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 Board 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, 8 female (including the Principal) and 9 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 key committees comprises of, and are chaired by Board members, with each also containing the Principal, 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.

The Audit Committee has co-opted independent members, appointed for their specific skills and expertise. We have found this arrangement works well, and encourage the College to continue this, where possible.

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

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

Performance management

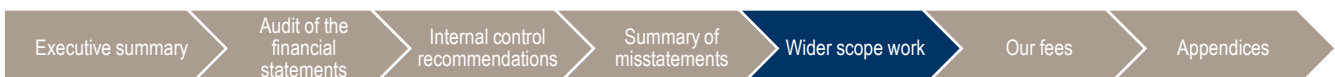
The College delivered its Regional Outcome Agreement (ROA) target credits, achieving a small operating financial surplus with improvements in student attainment and attendance. There is close monitoring of the delivery of the ROA, financial performance reports provide sufficient information to allow 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	£26,160	£26,160
Pooled costs	£1,680	£1,680
Contribution to Audit Scotland costs	£1,450	£1,450
Total Fee	£29,290	£29,290

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.

