Annual Audit Report

to the Board of Management and the Auditor General for Scotland

Ayrshire College

Year ended 31 July 2019

MAZARS

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26 November 2019

Dear Members

Annual Audit Report – Year ended 31 July 2019

We are pleased to present our Annual Audit Report for the year ended 31 July 2019. 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 11 June 2019. 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 2019, and forms the basis for discussion at the Audit Committee meeting on 26 November 2019.

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 have issued an unqualified opinion, without modification, on the financial statements on 16 December 2019.
Opinion on regularity	We have issued an unqualified regularity opinion on 16 December 2019, 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 have issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland on 16 December 2019. 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. However, we consider that the College's ability to remain financially sustainable over their five year financial plan, without significant additional funding or cost cutting, remains a significant risk; • 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

We have not made any internal control recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

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 2019.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever-changing business needs. Our aim is to add value to Ayrshire College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

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 £1,042,000 using a benchmark (2%) of Total Revenues. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1,056,000, using the same benchmark.

Threshold	Initial threshold £'000	Final threshold £'000
Overall materiality	1,042	1,056
Performance materiality	834	845
Trivial threshold for errors to be reported to the Audit Committee	31	32

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 12 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 our 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.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Expenditure recognition

Description of the risk

For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations.

The pressure to manage expenditure to ensure that budgeted outcomes are achieved increases the risk surrounding fraudulent reporting of expenditure.

How our audit addressed this risk

We have undertaken a range of substantive procedures including:

- The design and implementation of controls management has in place;
- Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the appropriate year;
- Testing material year end payables, accruals and provisions; and
- Reviewing judgements about whether the criteria for recognising provisions are satisfied.

Audit conclusion

Satisfactory assurance has been gained in respect of the risk of expenditure recognition. 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.

Voluntary Severance Scheme	**Description of the risk** The SFC has agreed to provide the College with strategic funding in 2018/19 for a voluntary severance scheme, as part of the College's Transition Plan.
	How our audit addressed this risk We have considered the procedures in place in relation to the operation of the voluntary severance scheme: • the severance pay amounts and how these have been calculated • the communication of the voluntary severance scheme to those affected • whether the funding received to fund the voluntary severance scheme has been utilised in accordance with the grant conditions; and • the accounting treatment of payments and disclosures made in the financial statements.
	Audit conclusion Our audit work provided satisfactory assurance in respect of the valuation, accounting treatment and disclosure of the voluntary severance scheme. We have no matters to report.

Key Areas of Management Judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

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 area of management judgement

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

Nationally, in all Local Government Pension Scheme (LGPS) valuations for accounting purposes, during 2018/19 two matters have been identified:

- The impact of Guaranteed Minimum Pension (GMP) equalisation may not be fully included (GMP concerns the minimum pension which an occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. The amount is said to be 'broadly equivalent' to the amount the member would have received had they not been contracted out.); and
- The impact of a legal case held during the year (known as the McCloud case), concerning potential age discrimination in relation to transition provisions introduced as part of pension reform measures may not be fully included.

Mazars actuaries have reviewed the assumptions used by SPF's actuaries in 2018/19. They have confirmed the inclusion of GMP equalisation and McCloud in the actuarial assumptions.

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

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Valuation of Land and Buildings

Description of area of focus

The College holds land and buildings with a net book value of £113m as at 31 July 2018.

In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five year period. As the full valuation was performed as at 31 July 2018, no revaluation is planned in the current year.

The College policy meets the requirements of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value. The College is required to assess on an annual basis whether there are indicators of impairment to asset at the reporting date.

How our audit addressed this area of management judgement

We have performed a range of substantive procedures including:

- Review of management's assessment as to whether the value still reflects the prior year valuation;
- Review of the reconciliation between the College's asset register and general ledger; and
- Consider the College's impairment review process for land and buildings

Audit conclusion

Our audit work provided satisfactory assurance in respect of the valuation of land and buildings at the reporting date. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 21 October 2019 at the start of audit fieldwork. The draft annual report was received during fieldwork on 29 October 2019. 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

No significant matters arose during the course of the audit.

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. SUMMARY OF MISSTATEMENTS

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £32k.

Disclosure amendments

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

- Performance report disclosures in line with SFC guidance
- Remuneration and Staff report data

4. WIDER SCOPE

Our approach to wider scope work

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

Dimension	Description	Our approach
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing and assessing the college's arrangements for financial planning and affordable and sustainable service delivery	We have considered: • the financial planning system in place for short, medium and long term periods • the adequacy and accuracy of financial reporting arrangements • the reasonableness of affordability assumptions made in financial planning
Governance Statement	The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review	We have considered: • the effectiveness of internal control arrangements • the appropriateness of disclosures made in the Governance Statement • whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met
Financial Management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	We have considered: • the monitoring of the effectiveness of internal control arrangements • whether the College's budgetary control system is timely and accurate • whether and how the College has assessed their financial capacity and skills
Value for Money	Value for money concerns using resources effectively and continually improving services.	We have considered: • the College's evidence of providing value for money • the focus on improving value for money and the pace of change at the College.

In 2018/19 we have also considered the following risk areas as they relate to the College:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

We do not consider that any of the above additional risk areas constitute a significant risk for the College at this point, but will continue to monitor.

4. 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

	2018/19 £'000	2017/18 £'000
Operating income	53,952	49,598
Staff costs	(34,833)	(32,905)
Operating expenditure	(20,471)	(19,011)
Operating Deficit for the year (FE/HE SORP basis)	**(1,352)**	**(2,318)**

Staff cost increases are primarily driven by the FRS 102 pension cost actuarial adjustment. The above table shows the financial performance of the College for 2018/19 and 2017/18 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; 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.

4. WIDER SCOPE

FINANCIAL MANAGEMENT (CONTINUED)

	2018/19 £'000	2017/18 £'000
(Deficit) before other gains and losses	(1,352)	(2,553)
Add back:		
- Depreciation (net of deferred capital grant release)	2,713	2,256
- Exceptional non-restructuring costs	-	1,250
- Non-cash pension adjustment – Net Service Cost	2,658	1,720
- Non-cash pension adjustment – Net Interest Cost	160	410
- Non-cash pension adjustment – Early retirement provision	(308)	(40)
- Retention of sales proceeds to fund PFI	1,050	-
- Release of provision	(332)	-
Deduct:		
- Non government capital grants from ACF	(618)	(1,881)
- Loan repayments (NPD)	(1,227)	(1,176)
- CBP allocated to loan repayments and other capital items	(954)	(994)
Adjusted operating surplus/(deficit)	**1,790**	**(1,008)**

The Accounts Direction issued by the SFC for 2018/19 required Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. This is in progress by the College at the time of writing.

The table above indicates that once the non cash and other applicable adjustments are made, the College has achieved a surplus in the year. In the prior year large impairments to the value of Holehouse Road had been recorded reflecting the value likely to be obtained (and retained) by the College following the land sale. This impacted the deficit result in prior year and the proceeds were received in 2018/19 impacting the surplus above.

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.

	2018/19 £'000	2017/18 £'000
Operating Deficit for the year (FE/HE SORP basis)	(1,352)	(2.553)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,713	2,256
Operating Surplus/(Deficit) on Central Government accounting basis	1,361	(297)

The table above shows a surplus, 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 show an operating surplus. The College is currently considered to be operating sustainably within its funding allocation. The overall position has been improved following retention of £1m in receipts in 2018/19 from the sale of Holehouse Road.

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements 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 meetings 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.

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 participated in the 2018/19 National Fraud Initiative (NFI) exercise. A number of matches were identified and fully investigated by the College. No significant findings or issues arose from NFI during the 2018/19 audit process.

4. 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

Ayrshire College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over their five year financial plan, without significant additional funding or cost cutting, remains a significant risk.

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 had previously identified a specific risk over the funding of the Kilwinning campus PFI contractual payments. 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 College engaged in discussions with the SFC and submitted a detailed Financial Sustainability Plan to obtain additional funding in 2019/20 and 2020/21. The rationale of the plan is to reduce operational costs to enable the affordability of the contractual PFI payments from core funding.

As the Financial Sustainability Plan is still in its infancy we consider there still remains a risk to the College achieving financial sustainability. This is reflected in the College's 2019 FFR.

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
- The financial and resource implications of any voluntary severance scheme proposed to be run by the College;
- The College's achievement of requirements set by the SFC on receipt of funding;
- The alternative plans considered by the College to ensure a balanced budget is achieved;
- The financial reporting arrangements in place at the College.

Wider scope conclusion

Subsequent to the College obtaining funding from the SFC following submission of their Financial Sustainability Plan, a Financial Sustainability Plan was initiated in 2018/19 which mainly consisted of a voluntary severance scheme as the College restructured it's organisational structure. Additional strategic funding of £700,000 has been committed by the SFC for 2019/20 and 2020/21 to support the College. The College will require to continue to make further efficiencies over the forthcoming years in line with its budget, however the College and its Board show an awareness of the financial challenges and associated risks that it faces.

Whilst the Financial Sustainability Plan is still in its infancy, the financial forecasting performed by the College indicates that the funding gap previously identified has been significantly reduced. The five year forecast prepared by the College, however, continues to highlight a future funding gap with projections that the College will exhaust its cash resources during 2022/23. No immediate action is being taken by the College in addition to the efficiencies included in the Financial Sustainability Plan. The College await further funding announcements from the SFC for the later years in the plan. We consider that without additional action by the College and / or additional funding from the SFC, there is a risk that the College will not remain financially sustainable in the five year forecasting period.

4. 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 as the College does not use different assumptions for its reporting to Board.

	Forecast 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Total Income	50,451	50,787	50,194	49,286	49,395
Staff costs	33,879	34,688	34,267	34,960	35,567
Total other expenditure	13,605	13,636	13,847	14,060	14,278
Operating surplus/(deficit) before other gains and losses	**2,783**	**2,463**	**2,080**	**266**	**(450)**
Operating position adjustment (e.g non cash and exceptional items)	(2,695)	(2,790)	(2,705)	(2,657)	(2,494)
Adjusted operating surplus /(deficit)	**88**	**(327)**	**(624)**	**(2,391)**	**(2,944)**

The forecast model indicates the additional funding provided by SFC and the efficiencies the College can achieve through its Business Transformation Plan should result in an operating surplus being achieved until 2023/24, however the adjusted operating position reflects a deficit from 2020/21 onwards.

A cashflow projection was prepared by the College in conjunction with the forecast

	Forecast 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Opening cash balance	1,430	1,839	1,871	1,462	(826)
Net Cash Movement	409	32	(410)	(2,288)	(3,069)
Closing cash balance	**1,839**	**1,871**	**1,462**	**(826)**	**(3,895)**

The cashflow forecast indicates that the College will exhaust its cash funds during 2022/23. This is considered to be impacted by a proposed change in the funding model by SFC for years 2022/23 onwards which would lead to a reduction in credits and associated funding for the College of 3,884 credits and £(1,016,279) in funding. This is the largest contributory factor to the reductions in forecast from 2021/22 to 2022/23. The College anticipates it will address this through dialogue with the SFC during Outcome Agreement process.

4. WIDER SCOPE
FINANCIAL SUSTAINABILITY (CONTINUED)

The forecast prepared includes budgeted efficiency savings until 2021/22 within the impact of the Financial Sustainability Plan and as such the funding gap identified in the prior year of £11.89m is significantly reduced. No further immediate action is being considered by the College for 2020/21 in addition to the current planned efficiencies being sought and included in the current forecast.

Whilst we consider this to be appropriate given the full known impact of current efficiency savings and voluntary severance are yet to be realised and the uncertainties surrounding the impact of the future funding model on the College, until such time as either additional funding is made known to be available than is currently able to be forecast or the College is able to identify and implement additional efficiencies than those being budgeted we would consider there to be sufficient concerns over the financial sustainability of the College.

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.

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 Ayr. This is in line with the Infrastructure Strategy for the College with the work being completed in this area in 2017/18 and 2018/19.

4. 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.

At 31 July 2019, the Board consisted of 15 members, 8 female (including the Principal) and 7 male. The Board continues to maintain 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 BDO. Internal audit have attended Audit Committees throughout the year and have produced 4 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.

4. 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 2018/19 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.

5. 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 2019. Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2018/19	Final fee 2018/19
Auditor remuneration	£29,780	£29,780
Pooled costs	£1,570	£1,570
Contribution to Audit Scotland costs	£1,650	£1,650
Total Fee	**£33,000**	**£33,000**

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.