Annual Audit Report

to the Board of Management and the Auditor General for Scotland

West College Scotland

Year ended 31 July 2020

MAZARS

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The Joint Audit and Finance & General Purposes Committee
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24 November 2020

Dear Members

Annual Audit Report – Year ended 31 July 2020

We are pleased to present our Annual Audit Report for the year ended 31 July 2020. 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 22 May 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the continued challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your 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 West College Scotland ('the College') for the year ended 31 July 2020, and forms the basis for discussion at the Joint Audit and Finance & General Purpose Committee meeting on 24 November 2020.

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, without modification, on the financial statements. As outlined in more detail in section 2, we have includes an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainty disclosed in the financial statements regarding pension fund assets.

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 concluded as follows against each of the four wider scope dimensions:

- The College has effective arrangements, including budgetary control, that help the Board of Management members scrutinise finances;
- The College has adequate financial planning arrangements in place. The long-term operational funding gap previously identified by the College as well as a need for significant capital investment remains and increases. Efficiency saving requirements have been assessed over a three-year period and work is ongoing to enable the implementation of these;
- The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management; 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

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 identified no recommendations for the improvement of internal controls at the College during the current year 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 2020.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in May 2020. 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 £1,238k using a benchmark (2%) of Total Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1,217k, using the same benchmark.

Threshold	Initial threshold £'000	Final threshold £'000
Overall materiality	1,238	1,217
Performance materiality	990	974
Trivial threshold for errors to be reported to the Audit Committee	37	36

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 11 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 and if clawback conditions apply to the funding.

The risk above applies only to the non-grant income generated by the College. The risk has been rebutted in relation to the grant income received by the College, given the highly regulated nature of this income, and therefore the low inherent risk associated with it.

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 area of management judgement

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, including Covid related provisions such as failure to educate accruals 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)

Going concern

Description of the risk

The COVID-19 (Coronavirus) pandemic resulted in the temporary cessation of on-site College operations from March to early September 2020. The pandemic has led to increased uncertainty around current and future revenue for colleges due to loss or partial loss of funding as a result of credit targets not being met and from a reduction in alternative income generating activities.

Whilst the College has sufficient cash reserves to continue normal operations until the end of 2020, it was unknown at the time of planning whether those reserves would be sufficient for the College to continue in operations for a period of 12 months from the date of signing the financial statements without further funding or a significant change in expenditure.

How our audit addressed this area of management judgement

We have undertaken a range of substantive procedures including:

- The design and implementation of controls management has in place;
- Management's assessment of going concern;
- The Board's assessment of the impact of COVID-19 on going concern ; and
- Budgets and forecasts looking forward 12 months from date of signing the audit report.

Audit conclusion

Going concern was considered to be a significant risk due to uncertainties over the College's ability to deliver its credit target and the continuation of European Social Funding ('ESF') following the closure of campuses at the outset of the COVID-19 pandemic. Whilst uncertainty still exists with the termination of ESF funding anticipated in July 2023, no withdrawal of funding was made in the current year as a result of COVID-19 and the College was able to successfully deliver its credit target. We have considered the longer term financial sustainability of the College in our Wider Scope work at page 17 of this report.

Satisfactory assurance has been obtained that the College has sufficient resources to enable it to continue operations for a period of twelve months from the date of signing of the financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Land and Buildings

Description of area of focus

The College held land and buildings with a net book value of £102m as at 31 July 2019.

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 will undertake 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
- Considering 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.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

In the 2019/20 SPF unaudited accounts, a 'material valuation uncertainty' has been disclosed. This is in respect of property assets held by the pension fund. The response to Covid-19 meant that property valuers were faced with an unprecedented set of circumstances on which to base a judgement. As at 31 March 2020 (the valuation date) the valuers, Avison Young, considered that less weight could be attached to previous market evidence for comparison purposes to inform opinions of value. We consider that the College has made appropriate disclosures in the financial statements in respect of this 'material valuation uncertainty'.

There have been no other significant findings arising from our review of the defined benefit liability valuation and disclosures in the financial statements.

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 2019 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2019/20 , appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 14 September 2020 at the start of audit fieldwork. 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. The audit work this year was undertaken remotely through the uploading of documents to a portal and both parties would agree that the revised process worked effectively.

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

Despite the undoubted impact of the pandemic on both the preparation and completion of the draft accounts, which were completed for audit in line with agreed timetables, as well as our audit work, during the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We would like to express our thanks to management and staff for their co-operation throughout the audit.

3. SUMMARY OF MISSTATEMENTS

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £36k.

Adjusted misstatements

During the course of the audit it was identified that differing interpretation had occurred in the sector regarding guidance published by the SFC in respect of job evaluation costs to be accrued. Following clarity obtained by the Audit Team from the SFC in respect of this guidance the College management processed the following adjustment in the financial statements;

DR Staff job evaluation costs	£856,980
CR Accruals	(£856,980)
DR Accrued Income	£856,980
CR SFC grant income	(£856,980)

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

West College Scotland has effective arrangements, including budgetary control, that help Board of Management members scrutinise finances.

Financial performance

FE/HE SORP position

	2019/20 £'000	2018/19 £'000
Operating income	56,888	58,991
Staff costs	(46,160)	(43,148)
Operating expenditure	(18,162)	(19,011)
Operating deficit for the year (FE/HE SORP basis)	**(7,434)**	**(5,960)**

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 2019/20 and 2018/19 under the FE/HE SORP. Despite a deficit being shown over both years:

- Had it not been for the impact of the Covid-19 pandemic, the College would have achieved its financial targets and spending was in line with the Board of Management approved 2019/20 budget; and

- The student credit target was exceeded confirming the level of SFC funding in the financial statements.

There was no significant movement in the reported position prior to the onset of COVID-19. Following this, income levels decreased with reductions in areas such as commercial & catering income, tuition fee income and flexible workforce development training funding. Staff costs increased compared with the reported position principally as a result of the increased holiday pay provision due to Covid-19. Operating expenditure decreased from the reported position principally due to the reduction in consumable costs and catering costs as a result of campus closures. Overall, movements in the reported position are directly related to COVID-19.

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 SFC 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)

	2019/20 £'000	2018/19 £'000
(Deficit) before other gains and losses	(7,434)	(5,960)
Add back: - Depreciation (net of deferred capital grant release) - Non-cash pension adjustment – Net Service Cost - Non-cash pension adjustment – Net Interest Cost - Loss in disposal of assets	 2,638 2,950 505 25	 3,518 2,444 390 129
Deduct: - Loan repayments	(510)	(495)
SFC Declared adjusted operating (deficit) / surplus	**(1,826)**	**26**

The Accounts Direction issued by the SFC for 2019/20 required the College to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. The position above has been submitted to the SFC and confirmed.

The table above indicates that once the non cash and other applicable adjustments are made, the College has incurred an SFC approved operating deficit of £1,826kn the current year. The College incurred a further non-cash charge of £393k in regard to the increased level of holiday pay provision required to be held by the College. Under SFC guidance, this is not considered an adjustable item but had it been added back the adjusted operating deficit would have been £1,433k.

The holiday pay adjustment represents a non cash accounting accrual for unused annual leave at the reporting date. The level of unused holidays at year end is more significant in the current year as a result of COVID-19, as College staff did not take annual leave to the level they had in prior years in the months leading to 31 July 2020.

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.

	2019/20 £'000	2018/19 £'000
Operating Deficit for the year (FE/HE SORP basis)	(7,434)	(5,960)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,638	3,518
Operating Deficit on Central Government accounting basis	(4,796)	(2,442)

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 also shows an operating deficit for 2019/20. This is considered to be a result of the impact of COVID-19 in areas such as commercial income, tuition fees and flexible workforce development training funding and highlights the significant financial difficulties faced by the College. The College considers that it is operating sustainably within its funding allocation, albeit this is subject to the unexpected and significant financial impact of COVID-19 being mostly contained to 2019/20.

4. 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 note that budget reports were produced on a timely basis and considered by the appropriate committee throughout the year. Immediately after the lockdown in March 2020, budget reports and forecasts were appropriately updated based on prudent assumptions and so whilst there was movement during the period over the forecast position we consider this reasonably reflects the fluidity of the situation and the levels of inherent uncertainty at that time. 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 made by the Committee 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 participates in the National Fraud Initiative (NFI) exercise. Data was submitted in line with timescales and the Audit Committee have been informed of the exercise. No significant findings or issues arose from NFI during the 2019/20 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 sustainable service delivery in this timescale.

Our conclusion

West College Scotland has adequate financial planning arrangements in place. The long-term operational funding gap previously identified by the College as well as a need for significant capital investment remains and increases. The College is reliant on the outcome of dialogue with the Scottish Funding Council to ensure these costs will be met and financial sustainability is ensured.

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 2019/20 and beyond, it will require to make significant savings over the three year period from 2019/20.

How we addressed the risk

We have addressed the risk by:

- Reviewing the forecast financial position in the three year financial plans submitted to SFC;
- Reviewing the financial and resource implications of any voluntary severance scheme proposed to be run by the College;
- Alternative plans being considered by the College to ensure a balanced budget is achieved;
- Reviewing the financial reporting arrangements in place at the College; and
- Progress made with plans to replace the Greenock and Paisley campuses, alongside the impact on finance performance

Wider scope conclusion

The College and its Board of Management have a clear view of the financial challenges and long-term risks faced. The College has identified that it may need to make staff cost efficiencies of £1.9m over the next three-year period. In addition to this a further £1.6m of staff costs are likely to require to be saved with the cessation of European Social Fund (ESF) activity at the end of 2022/23.

In 2019 the College commissioned an updated building condition survey which confirmed the need for significant capital investment to bring the current estate up to condition B standards had increased, with £42.4m now required over the next 5 years. Outline business cases were submitted to the Scottish Funding Council for replacement of the two campuses in 2016 and 2017, but to date, these have not progressed to full business cases with the estimated costs of progressing these being approximately £200m. The College remains in dialogue with the SFC regarding the need to progress the business cases, as there is an ongoing and significant risk that without further revenue funding to support estates maintenance or capital funding to support replacement, the operating environment of the College will continue to deteriorate.

Given the level of sector wide uncertainties around future funding and of the general economic environment that have arisen following Covid-19, it is reasonable that the College forecasts do not exceed the three-year modelling period requested by the SFC. Longer term actions are included within this period which demonstrates that the College is taking steps to ensure its long-term financial sustainability, however, these rely on the outcome of on-going dialogue with SFC over funding for aspects such as voluntary severance and capital investment.

4. WIDER SCOPE
FINANCIAL SUSTAINABILITY (CONTINUED)

Financial Planning

The College would normally prepare an annual budget and five-year forecast which is scrutinised by the Finance and General Purposes Committee and approved by the Board of Management which forms the basis of the Financial Forecast Return (FFR) required to be submitted by the SFC annually. In the current year, given the level of uncertainties related to financial planning, the SFC requested only a three-year FFR and so the College has prepared a budget and forecast for this period.

The forecast 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 three-year forecast is included in the table below.

	Budget 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000
Total Income	58,116	60,987	57,846
Staff costs	(43,039)	(45,523)	(42,792)
Total other expenditure	(13,411)	(13,801)	(13,421)
Operating surplus/(deficit) before other gains and losses	**1,666**	**1,663**	**1,663**
Non-cash and other accounting adjustments	(2,790)	(2,835)	(2,886)
Net depreciation spend	(1,112)	(1,293)	(1,273)
Depreciation net of release of capital grant	2,790	2,835	2,886
Loan repayments	(527)	(346)	(366)
Projected underlying operating result	**27**	**24**	**24**

The table above indicates a forecast break-even position on an adjusted operating position basis, however, there are several assumptions included in this forecast where uncertainty exists that require further clarification between the College and the SFC. These relate to;

- The forecast includes operating staff cost efficiencies of £0.5m, £0.5m and £0.9m to be met in the respective three-year period. Whilst an element of these savings is likely to be met through natural attrition, the balance will most likely require to be met through voluntary severance, the potential costs of which are not included in the forecast.
- Cessation of European Social Fund income is included in 2022/23. Associated reduced staff costs of £1.6m via a voluntary severance scheme are included in the forecast and given this is a sectoral structural change the College has been assumed this to be fully funded by the SFC.
- The SFC has provided colleges with the assumption (as part of the FFR process) that 50% of voluntary severance costs would be funded by the SFC, with individual colleges paying the balance. If this assumption holds, it is unlikely that this cost would be met through further staff cost savings and so would require the College to identify alternative cost savings, to fund the costs from their own reserves or obtain an agreement with the SFC for a higher level of funding for voluntary severance schemes. The College are in discussions with the SFC on the level of funding that would be available for potential future voluntary severance schemes and will update the future operating position when those discussions are concluded. Until that point, there is a risk that the projected adjusted annual operating surplus position will in fact become an adjusted operating deficit, requiring increased levels of savings to be generated to return the College to a financially sustainable position.

4. WIDER SCOPE

FINANCIAL SUSTAINABILITY (CONTINUED)

Financial Planning (continued)

The College continues to engage in dialogue with the SFC to resolve the uncertainties around the future funding of voluntary severance schemes. The potential overall impact on the College should all staff efficiencies be required to be met via voluntary severance schemes that are only 50% funded, is estimated at £0.95m over the three-year period. Without other savings or additional income being obtained, this would result in the College running a significant adjusted operating deficit in those three years.

The income included in the forecast presumes the College will achieve its full SFC credit target. Should the College have a reduction in capacity as a result of its ageing estate and potential impairment of buildings leading to an inability to fully use them, there is a risk that SFC credit activity targets may not be met. This risk has been partially alleviated from 2020/21 onwards following a positive outcome of the dialogue between the College and SFC, which has resulted in a reduction of 5,000 credits in the College activity target without a reduction in the core teaching grant received by the College.

Asset Management and Estates Strategy

Included in the operating costs in the previous table are significant maintenance costs for the College estate which are generally funded through SFC estate lifecycle maintenance. 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.

The College submitted Outline Business Cases (OBC) 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. This survey estimated that the College required an investment of £61.0m in the next 10 years. Overall, across Scotland the total backlog costs were estimated at £363m. The Scottish Funding Council continues to work 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 College undertook a further estate condition survey in 2019 which showed an estimate of £82.3m would be required over the next 10 years to bring the condition of the estate to category B (sound, operationally safe, and exhibiting only minor deterioration). The survey estimated that over the next 5 years £42.4m would be required to bring the College campuses to Category B status. This is made up of £16.6m and £21.3m at the Paisley and Greenock campuses, with a further £4.5m at the Clydebank campus. A further £39.9m was recognised as being required across the three campuses in the following 5 years.

The College has continued to receive variable levels of both estate lifecycle and high priority maintenance funding from the SFC as noted in the table below:

	2018-19 £'000	2019-20 £'000	2020-21 £'000
Lifecycle maintenance funding	1,182	820	1,193
High priority maintenance funding	3,004	1,710	3,356
Total estate maintenance funding	4,186	2,530	4,549

4. WIDER SCOPE
FINANCIAL SUSTAINABILITY (CONTINUED)

Asset Management and Estates Strategy (continued)

An increasing level of lifecycle and high priority maintenance funding has been awarded for 2020/21 but is significantly lower than costs identified in the 2019 condition survey.

There is also the risk associated with an aging estate that further issues will have arisen since the 2019 condition survey was completed that would increase these costs further. The College intends to continue to use the high priority maintenance funding in agreement with the SFC to address the areas of priority raised by the both survey reports. These priority areas will be supplemented by estate projects that have been identified by the College itself to support a long-term approach of the College Estate Strategy 2016-2026.

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.

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

West College Scotland has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management. We consider the additional governance arrangements made by the College to deal with the impact of COVID-19 to be appropriate

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 of Management, 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 2020, the Board consisted of 17 members, 9 female (including the Principal and new Chair) and 8 male.

The key committees membership 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.

COVID -19 Governance arrangements

The College campuses closed on Friday 20 March and the College moved to remote working and distance learning delivery model for the remainder of the 2019/20 academic year. Board and Committees continued to meet regularly during this period using appropriate virtual platforms. An executive sub-group was established and initially met daily with the purpose of leading the work in relation to implement government guidance and addressing issues around the delivery of teaching and essential support services. The focus was to ensure that as many College functions as possible could be delivered remotely.

Regular communication was made with students and staff through the College intranet and social media with relevant and up to date information. A regular newsletter is posted on the intranet for staff to view, containing information on new updates and support for health and wellbeing guidance. The College continued to meet with the Students' Association to ensure contact on key issues such as student funding was maintained.

A sub-group mobilisation team was established to manage the work required to plan for the safe re-opening of the college buildings and delivery of curriculum for the 2020/21 academic year. The work of this Group were guided by the following key principles;

- To have the fewest possible number of people on campus and any one time
- To ensure the safest possible environment for those on campus
- To ensure the best possible learning and working experience for student and staff

Digital poverty was highlighted as an area of significant challenge for both the college sector and the communities served by the College. Following revised guidance from the SFC regarding the use of Student Support Funds, the College was able to re-designate funding originally intended for childcare and travel allowances that was unspent as a result of the closure of campuses into this area and procurement of approximately 1,800 chromebooks was approved.

Following an online student induction programme over the summer, full-time courses commenced in 2020/21 academic year on 21 September 2020, this being a 4 week delayed start date from usual and in line with the overall sector.

4. WIDER SCOPE
GOVERNANCE AND TRANSPARENCY

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 was provided by Scott-Moncrieff during 2019/20. Internal audit have attended Audit Committees throughout the year and have produced 6 reports to support the overall Annual 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

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. A financial deficit was incurred in the year, this was following the impact of the COVID-19 lockdown. There is close monitoring of the delivery of the ROA and financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget to be appropriately managed. Through this management of the 2019/20 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected given the circumstances of the year.

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 OF Management 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.

4. 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 2020. Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2019/20	Final fee 2019/20
Auditor remuneration	£27,940	£27,940
Pooled costs	£1,570	£1,570
Contribution to Audit Scotland costs	£1,490	£1,490
Total Fee	**£31,000**	**£31,000**

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.