Annual Audit Report

to the Board of Governors and the Auditor General for Scotland

West Lothian College

Year ending 31 July 2020

MAZARS

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

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26 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 4 June 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 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 Lothian College ('the College') for the year ended 31 July 2020, and forms the basis for discussion at the Audit Committee meeting on 26 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 included an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainties disclosed in the financial statements.
Opinion on regularity	We issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.
Opinion on other requirements	We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	We concluded as follows against the wider scope dimensions for smaller bodies: • The College has effective arrangements, including budgetary control, that help the Board members scrutinise finances; and • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board and are reflected in their governance statement.

Misstatements and internal control recommendations

Section 3 outlines the misstatement noted as part of our audit.

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 our audit. In addition, there were no recommendations from the prior year which required to be followed up.

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 June 2020. As part of our Audit Progress Report in September 2020 we provided details of further work we intended to perform around the governance arrangements for the impact of Covid-19. We have not made any further changes to our audit approach.

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 West Lothian 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 £407k using a benchmark of 2% of gross expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £408k, using the same benchmark.

Threshold	Initial threshold £'000	Final threshold £'000
Overall materiality	407	408
Performance materiality	326	327
Trivial threshold for errors to be reported to the Audit Committee	12	12

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 risk level. 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; 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 over the presumed risk of management override of controls. 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 all users of financial statements and can be subject to judgements as to when income for services should be recognised.

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

We consider that there is also a higher risk of non-recoverability of debts arising from the impact of COVID-19 on the economy and therefore expected credit loss provisions should be carefully considered, using forward looking data where appropriate.

How we addressed this risk

We addressed this risk through performing work over:

- The design and implementation of controls management has in place to ensure income is recognised in the correct period;
- Cash receipts around the year end and to ensure they have been recognised in the right year;
- The judgements made by management in determining when income for the services is recognised; and
- Expected credit loss provisions applied to receivables at the year end, considering the appropriateness of judgments made by management.

Audit conclusion

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

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Valuation of land and buildings

Description of the risk

The financial statements contain material entities for land and buildings. Land and buildings are due to receive a full valuation at 31 July 2020. It is likely that the revaluation amounts will be material to the financial statements. Valuations will be performed by an expert valuer.

The Royal Institute of Chartered Surveyors (RICS) issued guidance to valuers in March 2020, recognising that valuers are likely to disclose a material calculation uncertainty arising from the COVID-19 pandemic, due to the lack of reliable and contemporary market and cost data available to valuers. There is a potential that this situation may still exist at the point the College requires a valuation to take place.

How we addressed this risk

We addressed this risk through performing work over:

- Examining the professional qualifications of the valuer;
- Challenge and substantiate the assumptions and the appropriateness of the data of the valuation used by your valuer in completing the valuations;
- Considering the impact of any uncertainty arising from the professional valuation of College land and buildings, assessing against third party benchmark where appropriate;
- Ensure that valuations and impairments have been completed on the correct basis for each item and that movements are in line with expectation; and
- Assess whether the report produced by the valuer has been correctly reflected in the accounts.

Audit conclusion

Satisfactory assurance has been gained over the valuation of land and buildings. We have no matters to report.

The external valuer has included a material valuation uncertainty paragraph within their valuation report. The College has included details of the material valuation uncertainty in note 1(p) to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. Our opinion on the College's financial statements is not modified in respect of this matter.

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 pension liabilities

Description of the management judgement

The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Lothian Pension Fund (LPF). 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 LPF's underlying assets and liabilities is identifiable and a net liability is recognised in the accounts.

Given the scale of the liability recognised in the accounts, a misstatement in the reported position could be material to the financial statements.

The movement in the valuation of the liability could be made more volatile by the impact of the COVID-19 pandemic.

How our audit addressed this area of management judgement

We considered the College's arrangements, including the existence of any relevant controls, for making estimates in relation to pension entries within the financial statements.

We also considered 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

LPF have disclosed a 'material valuation uncertainty' (MVU) in their audited financial statements with regards to the value of property investments held at 31 March 2020. This relates to limited market data being available at that time as a consequence of COVID-19. We conclude the West Lothian College share of these assets is considered material and as such disclosure to highlight the MVU should be included within the College's financial statements. Management have recognised this material valuation uncertainty in the notes to the financial statements and as such we intend to include a corresponding emphasis of matter paragraph within our Audit Report.

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

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2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Performance

The College is required to report financial performance under the HE/FE SORP, resulting in the reported deficit of £5,109k in the Statement of Comprehensive Income. However, as a central government body, the College is also required under the Accounts Direction from the Scottish Funding Council to report financial performance as an 'adjusted operating position'. We set out these required positions below.

	2019/20 £'000	2018/19 £'000
Operating income	18,808	19,006
Staff costs	14,782	13,626
Operating expenditure	5,625	6,731
Operating Deficit for the year (FE/HE SORP basis)	(1,599)	(1,351)

Operating income has decreased by £197k in the year. This is as a result of £179k decrease in SFC grants; £149k decrease in tuition fees and education contracts as a result of less part time courses ran due to Covid-19 and less uptake of SVQ type; £169k decrease in European funds as income is winding down due to Brexit; partially offset by £356k of grant income received under the Coronavirus Job Retention Scheme.

SFC recurrent grants increased by £379k and release of deferred capital grant increased by £78k, while childcare funding decreased by £144k which is matched by costs incurred. In addition, there has been a £492k decrease in other SFC grants provided for estates funding and flexible workforce.

Staff costs increases have been primarily driven by the outcome of national bargaining. The percentage increase in reflective of the sector as a whole. The pension contribution rate for lecturing staff increased from 17.2% to 23% in September 2019 which has increased pension costs. In addition, during 2019/20, the College has incurred significant and unplanned costs replacing lecturers on long-term sick leave amounting to £210k.

Operating expenditure has decreased by £1.1m from the previous year. This is mainly due to Covid-19 as there were less course visits and outings, equipment, consumables and services purchased as a result of College closure in March 2020. In addition, there were less minor works on the premises of £261k compared to the previous year.

While showing an accounting deficit, we highlight that:

- The College met its student credit target confirming the level of funding in the financial statements;
- The College achieved its financial targets in line with its plan; and
- At the start of the year the College budgeted a surplus for 2019/20. During the year the budget was adjusted downwards, due mainly to the impact of the unplanned costs of long-term sick leave as noted above which resulted in a deficit being budgeted.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Adjusted operating position

The table above sets out the financial position in accordance with the SORP requirements. The table below 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 and those that do not have an immediate cash impact on the College. Full details of the adjustments included are shown on page 17 in the accounts.

	2019/20 £'000	2018/19 £'000
Deficit before other gains and losses	(1,599)	(1,351)
Add back:		
- Depreciation (net of deferred capital grant release)	234	330
- Pension adjustment – Net service cost (FRS 102)	1,510	1,157
- Pension adjustment – Net interest cost	241	194
Deduct:		
- CBP allocated to loan repayments	158	158
- CBP allocated to Early Retirement payments	32	32
Adjusted operating surplus	196	140

The Accounts Direction issued by the SFC for 2019/20 required Colleges to submit the adjusted operating position calculations with draft accounts to the SFC for review before the accounts are signed off. This has been done by the College.

It is highlighted in the accounts that the adjusted operating surplus above does not take account of a further £168,000 of payments the College has made towards its Early Retirement Provision during the year (£166,000) in 2018-19). Taking this into account the adjusted operating result would be a surplus of £28,000 (deficit of £26,000 in 2018-19) which the College regards as its true position with regards to operational outturn for the year.

Based on the reported adjusted operating surplus as per the table above, the College has performed well on a consistent basis in both 2019/20 and 2018/19, despite the unplanned costs arising as a result of the long-term sick leave. The College benefitted from a reduction in other operating costs as a result of the College being closed, and they were eligible to receive CJRS grant income – this helped to ensure they have maintained similar results to the previous year. The above indicates that the College is operating sustainably within its funding allocation.

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.

Our audit fieldwork commenced on 28 September 2020, with the first draft of the annual report and accounts being received from the College on 21 September 2020. The draft annual report and accounts were of an acceptable quality, with updated versions becoming available as a result of updates to disclosure being made.

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 good and staff were very responsive to our requests during 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 officers for their co-operation throughout the audit.

3. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £12k.

The first table outlines the misstatements that have been adjusted by management during the course of the audit.

The second table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

Adjusted misstatements 2019/20

We set out below the misstatements that have been adjusted by management during the course of the audit

		Statement of Comprehensive Income		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Accrued income			104	
	Cr. Other income		104		
	Being the adjustment to recognise July CJRS grant claim receipt in the 2019/20 financial statements				

The total effect of the adjustment above was to increase income (and therefore decrease the accounting deficit) by £104k.

Unadjusted misstatements 2019/20

We set out below the misstatements identified above the level of trivial threshold of £12k.

		Statement of Comprehensive Income		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Other debtors			32	
	Cr. Trade creditors				32
	Being the reallocation of debit balances within trade creditors.				

The total effect of the adjustments above to the deficit for the year and the balance sheet would be nil. Management have therefore concluded that they will not adjust for this misstatement. We concur with this response.

Disclosure amendments 2019/20

Various minor presentational amendments were made following review of the draft Annual Report and Accounts and discussion with management.

In addition, it was found that an operating lease commitment relating to card terminals was not included in prior year accounts. The total lease commitment omitted in the prior year was £25k. As this is not material, no adjustment has been made to the prior year disclosure.

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.

In recognition that audit work should be risk based and proportionate to the nature and size of the audited body, the Code allows auditors to determine whether application of the full wider scope work is appropriate in smaller bodies. At the planning stage, we considered that the audit of West Lothian College should be carried out under the small body provisions of the Code. We have reached this conclusion through our assessment of:

- the relative size of the College;
- the relative simplicity of the College's functions;
- the College's risk profile.

In line with the Code requirements, our work has therefore focused on financial sustainability and the governance statement. This is concluded on in the following pages.

The Covid-19 pandemic impacted our risk assessment with regards to our approach to wider scope work. Specifically, we deemed the financial sustainability of the College to be a significant risk. This is discussed in further detail below.

In 2019/20 we have also considered the following risk areas as they relate to the College:

- Exit from the European Union
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

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

National Fraud Initiative

The College participated in the 2018/19 National Fraud Initiative (NFI) exercise. Data was submitted in line with timescales and the Audit Committee have been informed of the exercise. There were no matches arising from the exercise, and 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 and sustainable service delivery in this timescale.

Our conclusion

West Lothian College has adequate financial planning arrangements in place. It is cognisant of potential future funding changes and uncertainties and has appropriate plans for sustainable service delivery in the medium-term.

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 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 COVID-19 (Coronavirus) pandemic has resulted in the temporary cessation of operations of public sector organisations, including colleges, although the College is continuing to deliver as many online courses as possible and is engaging with the student population regularly throughout this period.

Prior to the Coronavirus pandemic, the College was expecting to record a deficit due mainly to unforeseen increases in staff costs primarily as a result of long-term sick leave for lecturers and consequent additional costs of providing teaching cover. The deficit is likely to be larger since the College has been closed since mid-March in accordance with lockdown rules, reducing commercial income that can be obtained. There is also now significant increased uncertainty around current and future revenues for colleges, and management if cashflow will be difficult for the foreseeable future.

The financial plans set by the College in prior years will require to be re-set with new funding assumptions as and when they become clearer.

How we addressed this risk

We addressed this risk through performing audit work over:

- Financial plans prepared by management, considering whether assumptions are appropriate; and
- How management have considered the longer term implications of the Covid-19 pandemic on the College.

Audit conclusion

The College are cognisant of the financial sustainability concerns for the FE College Sector and the uncertainty of funding in future years. They have developed plans, based on SFC assumptions, that should see the College return to reporting surpluses in the medium-term.

No significant issues have arisen through our work on the significant risk of financial sustainability.

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

West Lothian College has effective arrangements, including budgetary control, that help the Board members scrutinise finances.

Financial Planning

A review of the minutes of the Finance Committee and onwards to the Board demonstrated effective challenge of the financial position by members throughout the year.

The College would traditionally prepare a six-year financial forecast for the purposes of reporting to SFC which would form the basis of any long-term strategy. Given the volatility and uncertainties around Covid-19, SFC has requested only a 3 year forecast in the current year for the period 2020/21 to 2022-23. The SFC has been working with sector representatives to develop a set of common assumptions that colleges should use for longer-term financial forecasting. These assumptions are used to produce a financial forecast return (FFR) which is submitted to the SFC annually. The College use the FFR as a basis for their financial strategy planning.

The College has a 3 year plan to 2022/23 which is in line with the SFC requirements. There are inherent uncertainties around SFC funding for the College and student support funds, which provide difficulties in forecasting accurately.

The College's forecast as presented to, and approved by the Board is as follows:

	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Total income	19,702	18,413	18,536
Staff costs	13,664	13,355	13,409
Total other expenditure	6,178	5,198	5,267
Deficit before other gains & losses	**(140)**	**(140)**	**(140)**
Add back: - Depreciation (net of deferred capital grant release)	301	301	301
Deduct: - CBP allocated to loan repayments and other capital items	190	190	190
Underlying operating result	**(29)**	**(29)**	**(29)**

The figures above are based on the following:

- Income assumptions provided by the SFC;
- No increases in other/alternative income levels expected – the decrease in income (and costs) between 2020/21 to 2021/22 is due to the contract with Children's Hearing Scotland coming to an end;
- Decrease in operational expenditure over the 3 years from £19.8m to £18.7m – mainly as a result of the CHS contract coming to an end and reduction in estates grant funding; and
- Salaries increasing from 69% to 72% of total expenditure.

Post-submission of the financial forecast return, the College received confirmation from SFC that loan repayments of £158k per annum will be suspended until July 2026 following the payment for 2020/21. This was not incorporated in the figures above, but we understand that financial plans are being refreshed following this decision by the SFC.

4. WIDER SCOPE
FINANCIAL SUSTAINABILITY (CONTINUED)

Financial planning (continued)

We consider that financial planning is appropriately managed by the College, and that scrutiny and discussion over future financial plans are built into the various committee and Board meetings.

The College has historically and consistently produced an operating surplus each year, and have a strong basis for financial management. At the point of writing, there are no indications of a significant drop in learners that could indicate that the College may not meet Credit targets in the coming and subsequent years. Work continues on an evolving teaching model, with mixed face-to-face and virtual learning, whilst maintaining social distancing requirements.

In order to achieve a break-even position in 2021-22 and 2022-23, the College recognises that it will require savings of £166k in 2021-22 and £126k in 2022-23. The savings are largely expected to arise from reduced staff costs and will include:

- A review of curriculum delivery with a focus on integration of units and on-line delivery of units
- Introduction of different roles within the college
- Savings from business process re-engineering

The College continues to show healthy cash balances, which are predicted to be £845k by the end of 2023. The year end cash balance was higher than usual at £1.1m due to various timing differences. The main reason for the higher value was due to the receipt of £251k from the Coronavirus Job Retention Scheme for the months of April – June.

During the lockdown period, the finance team monitored cashflow on a regular basis to ensure liabilities could be met when they fell due. They ensured they had the ability to continue to make payments with the appropriate approval methods in place.

Asset Management and Estates Strategy

An Estates Strategy 2015-2025 is in place. It was introduced to complement the College strategic and operational plans. The key aim of the Estate Strategy is to ensure maintenance of high quality fit for purpose facilities, minimum environmental impact and operational sustainability. The Board of Governors, through the Finance & General Purposes Committee, monitors the strategy, and it is reviewed every 3 years in conjunction with the Corporate Plan.

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 West Lothian College survey showed an estimate of £2 million of costs over the 5 year period from 2018-19 to 2022-23, with only £17k being identified as urgent. The report states that expenditure of this level is to be expected with buildings approaching 20 years old. The work marked as urgent has already been completed, and the remaining works are currently being planned. During the year, £19k was spent on backlog maintenance. Further backlog maintenance expenditure has been factored into the 3 year plan.

We consider that appropriate attention is given to the estate and assets, and that their maintenance is factored into long term plans and discussions.

4. WIDER SCOPE
GOVERNANCE STATEMENT

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 Lothian College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board, these are reflected in the governance statement

Covid-19 impact and actions

Description of the area of focus
Considering the impact of Covid-19 on the College and steps taken to ensure continued appropriate governance was in place throughout.

How our audit addressed this area of focus
We considered the following:

- Decision making processes around closure of the College, and communication to those affected;
- Board and committee reporting throughout lockdown and on an ongoing basis, including the administration of any ad hoc meetings required to react to the fast-moving situation;
- Management arrangements for distance learning, and ongoing communication protocols with students and staff, including consideration of wellbeing; and
- Processes in place for re-opening to ensure adherence to current Government guidelines.

Audit conclusion

The College closed on Tuesday 17 March, and overnight the courses moved to online delivery and staff adapted a new way of working to support students. Announcements were made by the College and Principal and shared to all staff and students. Board meetings were held virtually throughout lockdown and on an ongoing basis, with an ad hoc Extraordinary meeting held on 22 July 2020 to review and approve the 2020-21 Budget and Financial Forecast Return 2020.

The College re-opened to some students in August 2020, with the 2020/21 academic year beginning on 21 September 2020. Face-to-face teaching is limited, remote working and social distancing remains in place. The College continues to review the basis of education provision, ensuring adherence with government guidelines.

4. WIDER SCOPE
GOVERNANCE STATEMENT

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 Governors, 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.

During 2019/20, the Board consisted of 18 members, 10 female (including the Principal) and 8 male. The Board meets with the objective of the Gender Representation on Public Boards (Scotland) Act 2018 with an implementation date of 2022.

The key committees comprise of, and are chaired by, Board members, with each also containing the Principal, with the exception of the Audit Committee. However, we note that the Principal attended the Audit Committee on a regular basis during the 2019/20 year. In addition, the Chair of the Board is also not permitted to be a member of the Audit Committee, but has attended, as appropriate, during the 2019/20 year. Appropriate College officers attend committees and present reports as required.

The Board and each of the various the committees (including the Audit Committee) generally meet 4 or 5 times a year, with the Remuneration Committee meeting as required, normally once a year. Minutes of these meetings are published to the College's website in a timeous fashion following the meetings, showing transparency. Committee papers are detailed and provide a good overview of the content of the meetings.

Covid response and governance

The College closed on Tuesday 17 March, and overnight the courses moved to online delivery and staff adapted a new way of working to support students. Announcements were made by the College and Principal and shared to all staff and students. The College have FAQs on its website and other news updates in relation to Covid-19, which covers topics such as student support and how the college can provide support on mental wellbeing.

In May, June and August, 120 staff attended online drop-in sessions with the Principal where many questions, concerns and suggestions were raised such as providing staff with support for effective home working and more laptops and tablets for facilities, and for students who don't have their own device. Most were followed up quickly, for example, the College invested £300,000 in new laptops available for staff and students – 200 for lecturers and relevant support staff and over 200 for students for short and long term loans.

Board meetings were held virtually throughout lockdown and on an ongoing basis, with an ad hoc Extraordinary meeting held on 22 July 2020 to review and approve the 20-21 Budget and Financial Forecast Return 2020.

Covid-19 was added to the Risk Register as an additional risk. Key actions taken to mitigate against those risk were:

- Staff and students equipped with laptops to facilitate home working and remote learning
- Student assessment practices adapted to enable students to complete successfully
- Regular meetings of the senior team and College management team to monitor and assess the situation and ensure staff and students were supported
- Comprehensive process implemented to deal with student resulting
- Regular engagement with Scottish Funding Council and other sector bodies
- Loss of income partially offset by participation in the Coronavirus Job Retention Scheme
- Investment in the College's digital infrastructure
- Investment in improvements to the College's estate.

In the week beginning 17 August, staff were invited to complete a Pulse Survey to assess how they were feeling on return to the college after five months of lockdown, with responses to statements as follows:

- 97% felt well informed about the safety measures being taken to allow a safe return to onsite working
- 95% agreed the college provides a safe and healthy working environment
- 91% felt well informed about the college's goals and priorities
- 93% felt well supported by their line manager and 95% felt well supported by their team.

The College re-opened to some students in August 2020, with the 2020/21 academic year beginning on 21 September 2020. Face-to-face teaching is limited, remote working and social distancing remains in place. The College continues to review the basis of education provision, ensuring adherence with government guidelines.

4. WIDER SCOPE
GOVERNANCE STATEMENT

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 is required to confirm the College's compliance with the 2016 Code of Good Governance for Scotland's Colleges. The governance statement highlights the dual role of the Vice-Principal, Finance and Curriculum Services who has also taken on the role of Secretary to the Board on an interim basis from February 2020 until December 2020, at which point when the appointment will be reviewed by the Board. In making the appointment, the Board of Governors have put in place a range of measures, including appointing the PA to the Principal to assist with Board Secretary duties, to mitigate any concerns over potential or perceived conflicts of interest. While the Code of Good Governance prefers the Board Secretary to be a separate role and not performed by a person in a senior management position, we recognise the difficulties faced by the College in filling the post on a substantive basis due to the Covid-19 pandemic and recognise the mitigating actions put in place.

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

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by Scott-Moncrieff (now known as Azets). Internal audit have attended Audit Committees throughout the year and have produced a number of reports to support the overall Head of Internal Audit Opinion. The overall opinion was that the College '*has a framework of controls in place that provides reasonable assurance regarding the organisation's governance, effective and efficient achievement of objectives and the management of key risks'.*

5. OUR FEES

Fees for work as the College's appointed auditor

We reported out proposed fees for the delivery of our work in our Audit Strategy Memorandum, presented to the Audit Committee in June 2020. Having substantially 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	£13,490	£13,490
Pooled costs	£770	£770
Contribution to Audit Scotland costs	£740	£740
Total Fee	£15,000	£15,000

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.