



Annual Audit Report  
to the Board of Management and the  
Auditor General for Scotland

Ayrshire College  
Year ended 31 July 2021

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## Appendix A – Independence

This document is to be regarded as confidential to Ayrshire College and. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Board of Management. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

The Audit Committee  
Ayrshire College  
Kilmarnock Campus  
Hill Street  
Kilmarnock  
KA1 3HY

23 November 2021

Dear Members,

## **Annual Audit Report – Year ended 31 July 2021**

We are pleased to present our Annual Audit Report for the year ended 31 July 2021. 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 to the Audit Committee on 8 June 2021. 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

For and on behalf of Mazars LLP

## Executive summary

### Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of Ayrshire College ('the College') for the year ended 31 July 2021 and forms the basis for discussion at the Audit Committee meeting on 23 November 2021.

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 uncertainty disclosed in the financial statements regarding the College's land and buildings valuation in the year.
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	<p>We concluded as follows against each of the four wider scope dimensions:</p> <ul style="list-style-type: none"> <li>• The College has effective arrangements, including budgetary control, that help the Board Members scrutinise finances;</li> <li>• The College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over the medium to longer term, without significant additional funding or cost cutting, remains a significant risk;</li> <li>• The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management; and</li> <li>• The College has an effective performance management framework in place that supports progress towards the achievement of value for money.</li> </ul>

## 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 2021.

### **Internal control recommendations and misstatements**

We did not identify any significant control weaknesses during our audit and have not raised any internal control recommendations. There were also no internal control recommendations from prior years to provide an update on.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. We did not identify any misstatements through our audit work.

## Executive summary (continued)

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum on 08 June 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

### Adding value through the audit

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

### 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 £1,058,940 using a benchmark (2%) of total expenditure. Our final assessment of materiality, based on the draft financial statements is £1,047,860 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	1,058	1,047
Performance materiality	847	838
Trivial threshold for errors to be reported to the Audit Committee	32	31

## Executive summary (continued)

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. This assessment has not changed during the audit process.

### **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.



## Audit of the financial statements

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

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

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



# Audit of the financial statements (continued)

## Valuation of Land and Buildings

### Description of area of focus

The College held land and buildings with a net book value of £128m as at 31 July 2021.

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, an interim valuation was carried out as at 31 July 2021.

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.

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### How our audit addressed this area of management judgement

We have performed a range of substantive procedures including:

- Examining the professional qualifications of the valuer;
- Challenging and substantiating the assumptions and the appropriateness of the date of valuations used by the valuer;
- Ensuring valuations and impairments have been completed on the appropriate basis and that movements are in line with expectation;
- Assessing whether the report produced by the valuer has been appropriately reflected in the accounts;
- Reviewing the reconciliation between the College's asset register and general ledger; and
- Considering the College's impairment review process for land and buildings.

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### Audit conclusion

An interim valuation of the College estate was performed as at 31 July 2021, by a professional external valuer. The estate was valued at £128m. This has been appropriately reflected in the financial statements.

The College's external valuer has included a material valuation uncertainty paragraph within their valuation report covering the College's land and buildings. Consequently, the College has included a disclosure reporting the material valuation uncertainty in the notes to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we have included an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report. This is not a modification of opinion.

# Audit of the financial statements (continued)

## **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.

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### **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.

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### **Audit conclusion**

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

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

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### 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.

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### Audit conclusion

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

# 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.

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### **How our audit addressed this risk**

We have undertaken a range of substantive procedures including:

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

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### **Audit conclusion**

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

# 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 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.

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#### 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
- Considering 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

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#### Audit conclusion

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

# Audit of the financial statements (continued)

## **Grouped assets accounting policy**

### **Description of area of focus**

During 2020-21 digital funding was made available to the College for the purchase of equipment to provide to students to enable and support remote learning that was required as a consequence of Covid-19. The College is required to account for this as capital funding as a term of the funding.

Any assets acquired using this funding, although distributed to students, are considered the property of the College and will be capitalised under a grouped asset accounting policy.

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### **How we have addressed this area of management judgement**

We have addressed the risk by:

- Considering the College's grouped asset accounting policy and whether this is consistent with the requirements of the digital funding provided.
- Enquiring with management as to how the College has satisfied itself that it has appropriate processes in place around the stewardship of the associated assets and what consideration of impairment has been made.

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### **Audit conclusion**

Satisfactory assurance has been gained in respect of the risk of Grouped assets accounting policy. We have no matters to report.

# Audit of the financial statements (continued)

## **Qualitative aspects of the entity's accounting practices**

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2020/21 and were appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 18 October 2021 at the start of audit fieldwork. The draft annual report was received during fieldwork on 2 November 2021. Both the draft financial statements and draft annual report were of a good quality.

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

## **Significant matters discussed with management**

No significant matters arose during the course of the audit.

## **Significant difficulties during the audit**

We completed our audit remotely. During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. The draft accounts, working papers and annual report were all provided in line with the agreed timetable. We would like to express our thanks to management and officers for their co-operation throughout the audit.



## Internal control recommendations

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

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

We did not identify any significant control weaknesses during our audit and have raised no internal control recommendations.

In the prior year we provided one recommendation relating to the PFI contract. This has been followed up during this years' audit, see below.

### Recommendation

The College's PFI contract for the Kilwinning Campus is due to expire on 14 August 2025. We recommended that the contract cessation and College action is considered by the Board of Management in a timely manner. Where a decision is made to make a final payment and purchase the campus, the PFI model will require to be updated to accurately reflect the value of future payments.

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### Management response

A decision is not contractually required to be made until 18 months before the contract is due to expire. The College is working with the Scottish Futures Trust and legal advisors to inform the actions and decisions required to be taken prior to the cessation of the contract. A decision will be taken by the Board of Management at an appropriate time and within the requirements of the contract.

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### Updated position

A paper was presented to the November Business, Resources and Infrastructure Committee (BRIC) on the options available to the College related to the termination of the Killwinning Campus PFI Agreement in 2025. The BRIC Committee agreed in principle to recommend that the Board of Management pursues the option to purchase, subject to a future business case being presented at the appropriate time, within the timeline set out in the contract. The Board of Management considered this matter in December 2021.

## Summary of Misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £31k.

### **Adjusted misstatements**

There were no adjusted misstatements identified during the course of the audit above the trivial threshold of £31k.

### **Unadjusted misstatements**

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £31k.

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

The table overleaf sets out the four dimensions of Wider Scope and our adopted approach.

## Wider scope (continued)

Dimension	Description	Our approach
<b>Financial Management</b>	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	<p>We have considered:</p> <ul style="list-style-type: none"> <li>the monitoring of the effectiveness of</li> <li>internal control arrangements</li> <li>the response to the COVID-19 pandemic and whether this has involved changes to the governance of the College</li> <li>whether the College's budgetary control system is timely and accurate</li> <li>whether and how the College has assessed their financial capacity and skills</li> </ul>
<b>Financial sustainability</b>	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the college's arrangements for financial planning and affordable and sustainable service delivery	<p>We have considered:</p> <ul style="list-style-type: none"> <li>the financial planning system in place for short, medium and long term periods</li> <li>the adequacy and accuracy of financial reporting arrangements</li> <li>the reasonableness of affordability assumptions made in financial planning</li> <li>the extent to which the financial planning assumptions have been updated and affected by the COVID-19 pandemic</li> </ul>
<b>Governance And Transparency</b>	The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review	<p>We have considered:</p> <ul style="list-style-type: none"> <li>The effectiveness of internal control arrangements</li> <li>the appropriateness of disclosures made in the Governance Statement</li> <li>whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met</li> </ul>
<b>Value for Money</b>	Value for money concerns using resources effectively and continually improving services.	<p>We have considered:</p> <ul style="list-style-type: none"> <li>the College's evidence of providing value for money</li> <li>the focus on improving value for money and the pace of change at the College.</li> </ul>

## Wider scope

### Financial management

#### Dimension

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

#### Our conclusion

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

#### Financial performance

##### FE/HE SORP position

	2020/21 £'000	2019/20 £'000
Operating income	51,311	51,380
Staff costs	(36,772)	(36,197)
Operating expenditure	(15,621)	(16,750)
(Loss) on disposal of assets	(19)	-
<b>Operating Deficit for the year (FE/HE SORP basis)</b>	<b>(1,101)</b>	<b>(1,567)</b>

The above table shows the financial performance of the College for 2020/21 and 2019/20 under the FE/HE SORP. Despite a deficit being shown over both years:

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

##### Adjusted operating position

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

## Wider scope

### Financial management (continued)

	2020/21 £'000	2019/20 £'000
<b>(Deficit) before other gains and losses</b>	(1,101)	(1,567)
<b>Add back:</b>		
- Depreciation (net of deferred capital grant release)	2,835	2,759
- Non-cash pension adjustment – Net Service Cost	3,206	2,669
- Non-cash pension adjustment – Net Interest Cost	405	292
- Non-cash pension adjustment – Early Retirement Provision	43	284
<b>Deduct:</b>		
- Non-government capital grants from ACF	(67)	(209)
- Loan repayments (NPD)	(954)	(1,280)
- Loan repayments (PFI)	(1,355)	(700)
- CBP allocated to loan repayments and other capital items	(700)	(954)
<b>SFC Declared adjusted operating surplus / (deficit)</b>	<b>2,312</b>	<b>1,790</b>

The Accounts Direction issued by the SFC for 2020/21 required Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. SFC have confirmed they are satisfied with the Adjusted Operating Position calculation reported to them.

The table above shows that once the non-cash and other applicable adjustments are made, the College has achieved a surplus in the year.

2020-21 has been a challenging year for the college sector and Ayrshire College. The College incurred additional costs due to the impact of Covid-19 and planned income streams were adversely affected. The College was however able to make savings in projected expenditure due to changes in service delivery and also received additional funding support from the SFC and through the Coronavirus Job Retention Scheme.

#### 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.

## Wider scope

### Financial management (continued)

	2020/21 £'000	2019/20 £'000
Operating Deficit for the year (FE/HE SORP basis)	(1,101)	(1,567)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,835	2,760
Operating Surplus on Central Government accounting basis	1,734	1,193

The table above shows a surplus when the impact of the depreciation budget is taken as the only adjusting factor to the financial position. The operating position table at the top of the page also shows an operating surplus for 2020/21. The College is currently considered to be operating sustainability within its funding allocation.

#### **Budgetary process**

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

We note that budget reports were produced on a timely basis and considered by the appropriate committee throughout the year. Budget reports and forecasts were appropriately updated based on prudent assumptions, there was considered no unreasonable movements throughout the quarterly forecasts and budgets considering the impact of actual and potential Covid-19 lockdowns throughout the year. Following the impact of Covid-19 forecasts were appropriately updated to reflect the changes to the financial environment and circumstances. The Business, Resources and Infrastructure Committee considers the management accounting pack regularly, reporting to the Board of Management. Minutes of the meetings document the level of challenge to the financial performance.



## Wider scope

### Financial management (Continued)

#### **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 2020/21 audit process. The College met all deadlines set by the NFI and investigated potential matches in a timely manner.

## Wider scope

### **Financial sustainability**

#### **Dimension**

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

#### **Our conclusion**

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

#### **Identified significant risks to our wider scope work**

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

## Wider scope

### Financial sustainability (continued)

<b>Financial Sustainability</b>	<b>Description of the risk</b>
	<p>A funding gap had previously been identified by the College principally as a result of the contractual PFI capital and interest payments of £1.4m per annum in respect of the Kilwinning Campus along with increasing staff costs as a result of National Bargaining. The College engaged in discussions with the SFC and a Financial Sustainability Plan was initiated in 2018/19. The SFC has also pledged support for a two year period (2019/20 and 2020/21) to help the College meet its PFI payment in respect of Kilwinning Campus. The College had identified that there remained a continued financial sustainability risk with cash funds forecast to being exhausted during 2022/23.</p>

The COVID-19 pandemic has resulted in the temporary cessation of operations of public sector organisations, including colleges, albeit some courses are now being taught remotely. As a result there is significant 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 commercial activities. The College is able to partially able to mitigate this risk through cost saving measures, however as this cost impact was not known at the point the Financial Sustainability Plan was agreed, there is a risk that the College is not financially sustainable in the medium term, without additional funding or cost cutting.

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.

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#### **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 run by the College;
  - Reviewing alternative plans being considered by the College to ensure a balanced budget is achieved;
  - Reviewing the financial reporting arrangements in place at the College;
  - Considering how management have considered the longer term implications of the COVID-19 outbreak: and
  - Considering progress made by the College as the expiration of the Kilwinning Campus PFI contract approaches
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## Wider scope

### Financial sustainability (continued)

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#### **Wider scope conclusion**

In 2019, the College agreed a Financial Savings Plan (FSP) with the SFC, which whilst giving the College additional funding, set targets for savings to be met over 2019/20 and 2020/21. These targets have been met and in some cases exceeded, providing a better than expected position at the start of this year's FFR.

During 2020/21, the College has prepared a three-year forecast which highlights a future funding gap. The College has taken steps to identify areas where savings can be made to mitigate the funding gap in the FFR. Given the level of sector wide uncertainties around future funding and of the general economic environment that has arisen following Covid-19, there is a risk the timing of the future funding gap could be accelerated, or made greater without the plans identified by the College being fully implemented and / or additional funding not being made available from the SFC.

We also note that should a decision be made to retain the Kilwinning Campus at the end of the PFI contract, there will be a final payment required that will have to be funded – either through additional SFC funding or further cost cutting measures than have already been planned. As a result, we consider that there remains a risk that the College will not remain financially sustainable in medium to longer term.

## Wider scope

### Financial sustainability (continued)

#### Financial Planning

The College would normally prepare a 5-year budget and forecast which forms the basis of the Financial Forecast Return (FFR) required to be submitted to the SFC annually. The 2020/21 FFR was prepared using the figures in a baseline budget approved by the Board of Management in June 2021. In the prior year, given the level of uncertainties relating to financial planning, the SFC requested only a 3-year FFR, this approach has been adopted again in the current year due to these uncertainties continuing.

SFC's FFR Call for Information set out a number of key assumptions which were to be used by colleges in their FFR. The resulting income and expenditure movements resulting from the assumptions detailed above between the 2021-22 budget and the 2022-23 forecast and 2023-24 forecasts are summarised in the table below.

	2022/23 Cash Movements £'000	2023/24 Cash Movements £'000
Opening Balance	248	(1,261)
Income Movements	(1,236)	749
Expenditure Movements	(273)	(592)
<b>Closing Balance</b>	<b>(1,261)</b>	<b>(1,104)</b>

In order to address the cash deficits, the College has proposed efficiency savings, mainly relating to staff savings, within the FFR for 2022/23 of £1,262k, which will be maintained into 2023/24. If these savings are met, the forecasts indicate that the College will report a surplus over the next 3 years.

A summary of the College's three year forecast, including the proposed efficiency savings, is included in the table below.

## Wider scope

### Financial sustainability (continued)

	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Total Income	54,667	52,507	53,526
Staff costs	(35,924)	(35,891)	(36,319)
Total other expenditure	(17,557)	(16,548)	(16,696)
<b>Operating surplus/(deficit) before other gains and losses</b>	<b>1,186</b>	<b>68</b>	<b>241</b>
Total Depreciation	2,690	2,690	2,690
Non-Government capital grants	(1,000)	0	0
Loan Repayments	(954)	(954)	(954)
NPD payments	(1,425)	(1,490)	(1,490)
<b>Adjusted Operating Result</b>	<b>497</b>	<b>314</b>	<b>537</b>

The impact of Covid-19 provides an additional risk for the College in achieving a balanced budget over the FFR period where any efficiencies able to be generated in this time may not be sufficient to address a growing funding gap – if, for example, projections around commercial income cannot be achieved.

This is a sector-wide risk relating to uncertainties resulting from the impact of Covid-19, given the College has an existing known future funding gap and required savings in their plan, we understand the College will require to make further efficiency savings/require to obtain additional income to achieve financial sustainability.

Until such time as either additional funding is made available or the College is able to identify and implement additional cost efficiencies, we therefore consider there to be concerns over the financial sustainability of the College.

### Asset Management and Estates Strategy

#### 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

## Wider scope

### Financial sustainability (continued)

million excluding contingencies, any related operational and management costs of the colleges, professional fees, VAT, optimism bias and inflation allowance. When taking these items into account, the resulting total gross estimated backlog is £363 million. 10% of these costs were defined as urgent, requiring action within the next year, with the majority of the costs requiring action within 3-5 years.

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

The survey showed an estimate of £4.7 million of costs over the 5 year period from 2017-18 to 2022-23 for the Ayrshire College estate, with £1.8m being identified as urgent. The most significant urgent costs identified relate to Dam Park Campus in Ayr.

### Kilwinning Campus PFI Contract

The College's PFI contract for the Kilwinning Campus is due to expire on 14 August 2025. Well in advance of the expiry, during 2019/20 the College obtained legal advice to understand any obligations and actions that should be taken in relation to the expiry. The legal advice sets out that the College has three options at the end of the contract; make a final payment to purchase the campus, extend the term of the PFI contract or exit the contract with no asset. There has been no firm decision made by the Board of Management as to what action the College will take in 2025, although decision papers are being submitted to the Business, Resources and Infrastructure Committee in November 2021.

When a firm decision is made by the College as to what option will be taken, the financial implications of the choice will have to be factored into the College's future financial plans. Should the decision be to make a final payment on the contract to purchase the campus and continue providing services from the Kilwinning Campus, without additional funding, or further cost cutting than is already planned the College's financial sustainability could be put at risk



## Wider scope

### Governance and transparency

#### Dimension

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

#### Our conclusion

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

During the year ended 31 July 2021, the Board consisted of 20 members, 10 female (including the Principal) and 10 male. The Board continues to maintain a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Bill which was introduced by the Scottish Parliament in June 2017 with an implementation date of 2022.

The 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.

## Wider scope

### Governance and transparency (continued)

#### **Covid-19 Governance arrangements**

Following the Government announcement of the initial lockdown in 2020, the College suspended all face-to-face teaching from Wednesday 18 March and teaching and College operations were performed remotely for the remainder of the 2019/20 academic year.

Since the first restriction were introduced, Board and Committees have continued to meet on their original schedule during this period using virtual platforms. The College's Campus Operations Steering group (COSG), originally set up to oversee the safe and effective reopening of Ayrshire College campuses in the summer of 2020, has continued to meet regularly throughout the year. This has ensured the approach to resuming on-campus activities has been safe and activities have been undertaken in line with the latest Scottish Government and Public Health guidance.

Ongoing communication was made with students and staff via the College website with FAQ's created and updated on a daily basis and messages shared throughout social media platforms with links to the website. Free mental health support was available to students through the College's membership of 'Big White Wall' community with messages and links shared regularly.

The College re-opened to students on 22 September 2020 for the 2020/21 academic year on a blended learning delivery method for teaching. To help plan and support for reopening actions taken by the College include;

- Issue of questionnaire to all students to identify to establish needs that may exist
- Introduction of safety measures, such as one way systems to facilitate safe traffic flow
- FAQ guide published on the College website and links shared throughout social media
- YouTube videos released for guidance around aspects such as online learning, ICT guidance, use of Microsoft Teams and Office 365

Lockdowns occurred throughout 2020/21 and the threat of imminent lockdowns remained throughout. The College was set up to deal with these effectively due to their blended learning approach being operational from the prior year.

We have reviewed the College's Covid-19 Governance arrangements and conclude that there is evidence of appropriate governance arrangements in this regard.

## Wider scope

### Governance and transparency (continued)

#### **Governance Statement**

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

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

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

#### **Internal audit**

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by BDO. Internal audit have attended Audit Committees throughout the year and have produced 9 reports to support the overall Head of Internal Audit Opinion.

#### **Transparency**

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

## Wider scope

### Value for money

#### Dimension

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

#### Our conclusion

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

#### Performance management

The College delivered its Regional Outcome Agreement (ROA) target credits. A financial deficit was incurred in the year, highlighting the continued financial difficulties the College faces. 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 2020/21 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.

## Our fee

### 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 on 08 June 2021. Having completed our work for the 2020/21 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2020/21	Final fee 2020/21
Auditor remuneration	£31,440	£32,440
Pooled costs	£1,850	£1,850
Contribution to Audit Scotland costs	£1,210	£1,210
<b>Total Fee</b>	<b>£34,500</b>	<b>£35,500</b>

The audit of the valuation of land and buildings is subject to a high level of scrutiny from our regulators, which has resulted in us having to perform higher levels of work to ensure we are meeting the expectations of our regulators. In addition, due to the land and building valuation as at 31 July 2021 including a Material Valuation Uncertainty clause, we have incurred additional costs in our audit and reporting. An additional £1,000 will be charged for this work.

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.