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

West College Scotland
Year ending 31 July 2021

mazars

Contents

This document is to be regarded as confidential to West College Scotland. 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 wholeor 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.

mazars

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The Joint Audit / Corporate Development Committee
West College Scotland
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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 21 May 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

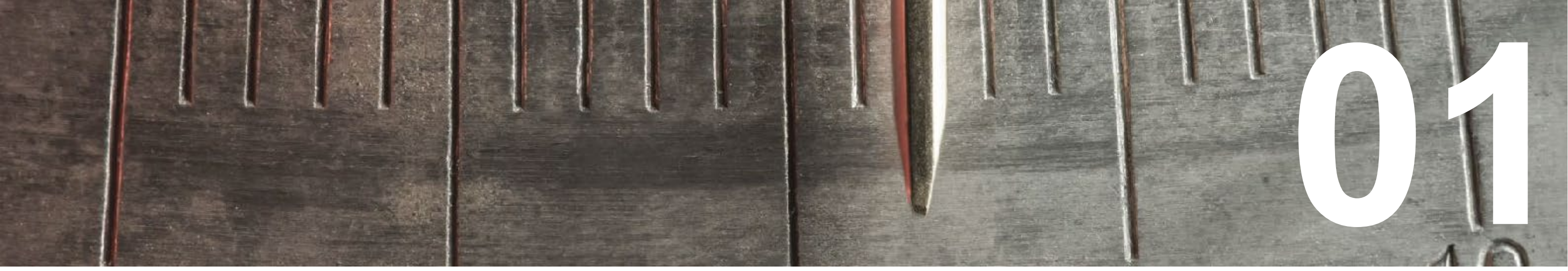
We would like to express our thanks for the assistance of your team during our audit.

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 West College Scotland (‘the College’) for the year ended 31 July 2021 and forms the basis for discussion at the Joint Audit / Corporate Development 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 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	We concluded as follows against each of the four wider scope dimensions: • The College has effective arrangements, including budgetary control, that help the Board Members scrutinise finances; • The College has adequate financial planning arrangements in place. The long-term operational funding gap previously identified by the College as well as a need for significant capital investment increases and becomes more urgent. The College is reliant on the outcome of dialogue with the Scottish Funding Council to ensure future capital investment is made and therefore the risk of the College not being financially sustainable is reduced • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management; and • The College has an effective performance management framework in place that supports progress towards the achievement of value for money.

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. 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 21 May 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 West College Scotland 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 £1,323,000 using a benchmark (2%) of total expenditure. Our final assessment of materiality, based on the draft financial statements is £1,294,000 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	1,323	1,294
Performance materiality	1,058	1,036
Trivial threshold for errors to be reported to the Audit Committee	40	39

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 £98m as at 31 July 2020.

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.

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;
- Assess whether the report produced by the valuer has been appropriately reflected in the accounts;
- Review of the reconciliation between the College's asset register and general ledger; and
- Consider the College's impairment review process for land and buildings.

Audit conclusion

An interim valuation of the College estate was performed as at 31 July 2021, by a professional external valuer. The estate was valued at £109.9m. This has been appropriate 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.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Satisfactory assurance has been gained in respect of 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.

How we addressed this risk

We addressed this risk through performing audit work over:

- The design and implementation of controls management has in place to ensure income is recognised in the correct period;
- Cash receipts around year end to ensure they have been recognised in the appropriate year;
- The judgements made by management in determining when grant income is recognised; and
- Obtaining counterparty confirmation for major grant income.

Audit conclusion

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

Expenditure recognition

Description of the risk

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

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

How our audit addressed this risk

We have undertaken a range of substantive procedures including:

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

Audit conclusion

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

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.

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

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)

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 15 September 2021 at the start of audit fieldwork. The draft annual report was received during fieldwork on 20 October 2021. Both draft financial statements and draft annual report were of a good quality.

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

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.

Summary of Misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £39k.

Adjusted misstatements

There were no adjusted misstatements identified during the course of the audit above the trivial threshold of £39k.

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £39k.

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.

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

Wider scope (continued)

Dimension	Description	Our approach
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing,and assessing the college's arrangements for financial planning and affordable and sustainable service delivery	We have considered: • the financial planning system in place for short, medium and long term periods • the adequacy and accuracy of financial reporting arrangements • the reasonableness of affordability assumptions made in financial planning • the extent to which the financial planning assumptions have been updated and affected by the COVID-19 pandemic
Governance Statement	The Governance Statement sets out the internal control arrangements and governance framework inplace for the year under review	We have considered: • The effectiveness of internal control arrangements • the appropriateness of disclosures made in the Governance Statement • whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met
Financial Management	Financial management is concerned with financial capacity, sound budgetary processes andwhether the control environment and internalcontrols are operating effectively.	We have considered: • the monitoring of the effectiveness of internal control arrangements • the response to the COVID-19 pandemic and whether this has involved changes to the governance of the College • whether the College's budgetary control system is timely and accurate • whether and how the College has assessed their financial capacity and skills
Value for Money	Value for money concerns using resources effectively andcontinually improving services.	We have considered: • the College's evidence of providing value for money • the focus on improving value for money and the pace of change at the College.

Financial management

Dimension

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

Our conclusion

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

Financial performance

FE/HE SORP position

	2020/21 £'000	2019/20 £'000
Operating income	58,985	57,745
Staff costs	(46,876)	(46,160)
Operating expenditure	(17,847)	(19,019)
Operating Deficit for the year (FE/HE SORP basis)	**(5,738)**	**(7,434)**

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.

Financial management (continued)

	2020/21 £'000	2019/20 £'000
(Deficit) before other gains and losses	(5,738)	(7,434)
Add back:		
- Depreciation (net of deferred capital grant release)	2,732	2,638
- Non-cash pension adjustment – Net Service Cost	3,122	2,950
- Non-cash pension adjustment – Net Interest Cost	625	505
- Loss on Disposal of assets	-	25
Deduct:		
- Loan repayments	(527)	(510)
SFC Declared adjusted operating surplus / (deficit)	**214**	**(1,826)**

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 of £214k. This demonstrates that the College has operated within its budget for the 2020/21 financial period in comparison to the previous year where a significant deficit was incurred as a result of the impact of COVID-19 in areas such as commercial income, tuition fees and flexible workforce development training funding. Whilst this loss of income was unexpected in the prior year and had an immediate impact in the final quarter of 2019/20, the College has managed its income levels in conjunction with its associated spending to manage its operating position throughout 2020/21.

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.

Financial management (continued)

	2020/21 £'000	2019/20 £'000
Operating Deficit for the year (FE/HE SORP basis)	(5,738)	(7,434)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,732	2,638
Operating Deficit on Central Government accounting basis	(3,006)	(4,796)

The table above shows a deficit when the impact of the depreciation budget is taken as the only adjusting factor to the financial position. The operating position table at the top of the page also shows an operating deficit for 2020/21. This is considered to be a result of the continued impact of COVID-19 in areas such as loss of commercial income, rising staff costs due to national wage raises, and the cost of the voluntary severance scheme put in place by the College during the year.

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. The Corporate Development Committee considers the management accounting pack regularly, reporting to the Board of Management. Minutes of the meeting document the level of challenge made by the Committee to the financial performance. The Corporate Development Committee was established during 2020/21, replacing the HR and Corporate Development; Finance and General Purposes; and Asset and Infrastructure Committees. The Corporate Development Committee therefore now receives the financial papers that were previously submitted to the Finance and General Purposes Committee.

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.

Financial sustainability

Dimension

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

Our conclusion

West College Scotland has adequate financial planning arrangements in place. The long-term operational funding gap previously identified by the College as well as a need for significant capital investment increases and becomes more urgent. The College is reliant on the outcome of dialogue with the Scottish Funding Council to ensure future capital investment is made and the risk of the College not being financially sustainable is reduced.

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)

Financial Sustainability

Description of the risk

The College has identified that significant efficiency savings are required over the next 3 years to deliver a balanced budget and there is a need for significant capital investment to bring the current estate up to condition B standards.

The risk is therefore that efficiency savings targets are not met which impact the College's ability to balance the budget and that the required capital investment is not obtained which could lead to further deterioration of the estate, potentially impacting the ability to provide services to students which would lead to inability to maintain funding levels.

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;
- Alternative plans being considered by the College to ensure a balanced budget is achieved;
- Reviewing the financial reporting arrangements in place at the College; and
- Reviewing progress made with plans to replace the Greenock and Paisley campuses, alongside the impact on finance performance

Wider scope conclusion

The College and its Board of Management have a clear view of the financial challenges and long-term risks faced. The College has identified that it may need to make further staff cost efficiencies of up to £2.3m over the next three-year period. In addition to this a further £1.6m of staff costs are likely to require to be saved with the cessation of European Social Fund (ESF) activity at 31 July 2022.

The College remains in dialogue with the SFC and has submitted new business cases, progressing the plans for the replacement of the Greenock and Paisley campuses. There is no timeline as yet for a decision on the updated business cases. There is an ongoing significant risk that without further revenue funding to support estates maintenance or capital funding to support replacement, the operating environment of the College will continue to deteriorate.

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

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.

	Budget 2021/22 £'000	Updated Budget 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Adjusted Operating Position	25	(2,039)	75	83

The FFR approved by the Board in June 2021 projected a small surplus of £25k. In October 2021, the Board of Management were provided with an update to the 2021/22 budget that the College was likely to face a £2m deficit in year. Several issues were identified at the start of 2021/22 which are likely to impact the overall financial position as at 31 July 2022 and so the decision was taken to update the budget. There is expected to be a shortfall of ESF credits due to lower than expected enrolments and late changes to the SFC credit guidance. Consequently, this is forecast to result in the College not being able to deliver additional activity for Young Person's Guarantee (YPG) and The National Transition Training Fund (NTTF) programmes due to the credit shortfall. The continuation of some Covid-19 restrictions has seen a lower level of student and staff activity on all College campuses resulting in a reduced level of catering income. The College predict that this will lead to a £2,039k deficit.

The projected outturn has been discussed in detail at the October Board meeting and the November Corporate Development Committee and was formally approved by the Board in December 2021.

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

Financial sustainability (continued)

	Budget 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Total Income	62,727	63,439	64,233
Staff costs	(48,216)	(47,364)	(48,485)
Total other expenditure	(19,425)	(18,927)	(18,569)
Operating surplus/(deficit) before other gains and losses	**(4,914)**	**(2,852)**	**(2,821)**
Total Depreciation	3,197	3,197	3,197
Loan Repayments	(322)	(270)	(293)
Adjusted Operating Result	**(2,039)**	**75**	**83**

The College originally forecast a small adjusted operating surplus in each of the next 3 years. This was then revised to reflect the anticipated shortfall of credits due to late changes to the SFC credit guidance and lower than expected August 2021 enrolment figures, resulting in a budgeted deficit of £2m in 2021/22. The College has assigned actions to address this funding shortfall in 2021/22 and expects these issues to be solved by 2022/23, therefore returning to anticipated surplus results set out in the FFR.

The above forecasts include efficiency savings of £4.7m across the 3 years. There is not only a required focus on the efficiency savings targets being met, but the College also assumes in its forecast that income will increase each year. This is justified by the SFC announcing increased funding allocations for 2021/22 and the SFC intention to maintain credit funding levels after ESF has ended as per the SFC Financial Forecast Guidance 2021-2024.

The College will need to deliver a further package of savings or increased income in order to address the challenges for 2022/23.

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.

Financial sustainability (continued)

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

Included in the operating costs in the previous table are significant maintenance costs for the College estate which are generally funded through SFC estate lifecycle maintenance. West College Scotland operates from three primary locations in Clydebank, Greenock and Paisley across 12 operational buildings. Of this, only four buildings are graded level 1 (excellent) for functional suitability. Seven buildings, at the Greenock and Paisley campuses require major repair or replacement.

The College submitted Outline Business Cases (OBC) for the replacement of the Paisley and Greenock campuses to the SFC in October 2016 and October 2017 respectively. The estimated investment required to replace both campuses at that point was approximately £200m. Since the OBC submission the College has continued to work with the SFC to refine and update these documents. During 2020/21, the SFC provided £84k to assist the College in developing an updated Greenock Business Case, which was completed and approved by the Board of Management in October 2021. The updated OBC takes account of revised space requirements following the pandemic and a hybrid approach to teaching in some cases. Shortly after the Board approval, the College received an updated list of requested amendments from the SFC. The submission of the OBC has been delayed to allow the College to address these amendments. For the Paisley campus, the SFC has requested Strategic Outline Case for this project, to assist with further consideration of the development proposed. There is no timeline currently for decisions to be reached on these significant proposed capital projects.

<u>National estates survey</u>
The 2017 survey by Gardiner & Theobald estimated that the College required an investment of £61.0m in the next 10 years. Overall, across Scotland the total backlog costs were estimated at £363m. The Scottish Funding Council has been 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 College undertook a further estate condition survey in 2019 which showed an estimate of £82.3m would be required over the next 10 years to bring the condition of the estate to category B (sound, operationally safe, and exhibiting only minor deterioration). The survey estimated that over the next 5 years £42.4m would be required to bring the College campuses to Category B status. This is made up of £16.6m and £21.3m at the Paisley and Greenock campuses, with a further £4.5m at the Clydebank campus. A further £39.9m was recognised as being required across the three campuses in the following 5 years.
The College has continued to receive variable levels of both estate lifecycle and high priority

Financial sustainability (continued)

maintenance funding from the SFC as noted in the table below:

Asset Management and Estates Strategy (continued)

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Lifecycle maintenance funding	821	1,193	1,121
High priority maintenance funding	1,710	2,574	2,572
Total estate maintenance funding	**2,531**	**3,767**	**3,693**

An increasing level of lifecycle and high priority maintenance funding has been awarded for 2020/21 and 2021/22 than in 2019/20 but is significantly lower than costs identified in the 2019 condition survey.

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

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

Wider scope

Governance and transparency

Dimension

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

Our conclusion

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

Governance arrangements

Our work in this area has considered the overall governance arrangements in place at the College, reviewed the financial and performance reporting to the Board of Management, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also attended Audit Committees during the year.

Financial papers submitted to committees are relevant and timely. Each paper has a summary setting out the purpose of the paper and the action required by the members. Minutes are understandable and contain detail of discussions and rationale for decision making.

At 31 July 2021, the Board consisted of 18 members, 8 female (including the Principal) and 10 male. In the current year the Board has not continued to maintain a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Act 2018.

The key committees' membership comprises of, and are chaired by Board members, with each also containing the Principal, with the exception of the Audit Committee. In addition, the Chair of the Board is also not permitted to be a member of the Audit Committee. Appropriate College officers attend committees and present reports as required.

The College has co-opted independent members, appointed for their specific skills and expertise on a number of sub-committees to the Board. We have found this arrangement works well, and encourage the College to continue this, where possible.

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.

Board and Committees continued to meet on the same schedule during this period using appropriate virtual platforms. The College also set up a Covid Executive Group and a College Mobilisation Group which both met on a weekly basis to discuss the College's responses to the continuing challenges of Covid-19 pandemic and resulting lockdowns.

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
- 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.

The College's internal auditors reviewed the College's response to the Covid-19 pandemic and concluded that the College had strong controls in place to effectively respond to the challenges resulting from the pandemic and associated lockdowns.

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

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 Wylie & Bisset. Internal Audit have attended Audit Committees throughout the year and have produced 8 reports to support the overall Annual Internal Audit Opinion. An additional report was produced regarding the College's response to an attempted cyber attack in the year, concluding the College acted appropriately and had strong controls to respond to such events.

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.

Value for money

Dimension

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

Our conclusion

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

Performance management

The College delivered its Regional Outcome Agreement (ROA) target credits. A financial deficit was incurred in the year, 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 canbe 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 21 May 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	£29,230	£30,230
Pooled costs	£1,600	£1,600
Contribution to Audit Scotland costs	£1,670	£1,670
Total Fee	**£32,500**	**£33,500**

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.