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

West Lothian College
Year ending 31 July 2021

mazars

Contents

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The Audit Committee
West Lothian College
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2 December 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 24 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.

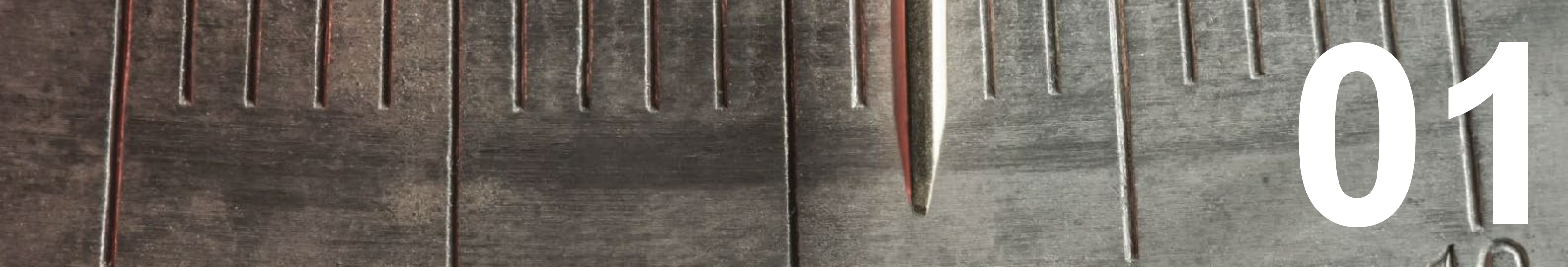
We would like to express our thanks for the assistance of your team during our audit.

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 set out the findings from our audit of West Lothian College ('the College') for the year ended 31 July 2021 and formed the basis for discussion at the Audit Committee meeting on 2 December 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 prior 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 wider scope dimensions for smaller bodies: • The College has appropriate financial planning arrangements in place. The College is reliant on the outcome of dialogue with the Scottish Funding Council in relation to future funding, or the increase of other income to ensure financial sustainability is ensured; and • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Governors.

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 24 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 West Lothian College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

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 £408,000 using a benchmark (2%) of total expenditure. Our final assessment of materiality, based on the financial statements is £422,000 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	408	422
Performance materiality	327	337
Trivial threshold for errors to be reported to the Audit Committee	12	13

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.

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)

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.

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.

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

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 non-grant income is recognised; and
- Expected credit loss provisions applied to receivables at the year end, considering the appropriateness of judgements made by management.

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 Lothian Pension Fund (LPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme. The College's share of the LPF's underlying assets and liabilities is identifiable and 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 existence of any relevant controls, for making estimates in relation to pension entries within the financial statements. • 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)

Valuation of Land and Buildings

Description of area of focus

The College holds land and buildings with a net book value of £20m 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 external valuation was performed at 31 July 2020, no revaluation is planned in the current year.

The College policy meets the requirement 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 assets at the reporting date.

Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements

How we have addressed this area of management judgement

We have addressed the risk by:

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

Audit conclusion

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

The external valuer included a material valuation uncertainty paragraph within their valuation report during the revaluation in 2019/20. As the valuation has not been re-performed as at 31 July 2021, management judgement is that the valuation uncertainty remains. As such, details of the material valuation uncertainty will be included in note 1(q) to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report. Our opinion on the College's financial statements is not modified in respect of this matter.

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.

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;
- Considering 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.

Audit conclusion

Satisfactory assurance has been gained over the application of the grouped assets accounting policy.

Audit of the financial statements (continued)

Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2020/21 and were appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 13 October 2021 at the start of audit fieldwork. The draft annual report was received during fieldwork on 02 November 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 mostly remotely with an onsite visit to the College. 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.

Summary of Misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £13k.

The table outlines the misstatements that were identified during the course of our audit.

Adjusted misstatements

We set out below adjustments, identified by management and made to the draft financial statements during the course of the audit.

	Statement of Comprehensive Income		**Balance Sheet**	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Revenue	48	-		
Cr. Deferred income			-	48
Being the correction of ESF income relating to 2021/22 included in 2020/21 accounts				
Total	**48**	**-**	**-**	**48**

The total effect of the adjustments above was to decrease net assets on the Balance Sheet by £48k and to decrease revenue by £48k. These adjustments are immaterial to the overall financial statements.

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £13k.

Wider Scope

Our approach to Wider Scope work

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

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

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

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

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

In 2020/21, we have also considered the following risk areas as they relate to the College:

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

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

National Fraud Initiative

The College 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 Lothian College has appropriate financial planning arrangements in place. The College is reliant on the outcome of dialogue with the Scottish Funding Council in relation to future funding, or the increase of other income to ensure financial sustainability is ensured.

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 Governors in June 2021. As 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.

Through the FFR process and other financial reporting throughout the year, the College and its Board of Governors have a clear view of the financial challenges and long-term risks faced. FFR planning assumptions, as advised by the SFC, have been considered fully before use. We note that one of those assumptions is that funded credit activity for Foundation Apprenticeships (FAs) will not continue beyond 2021-22. Not funding FAs would have a significant and disproportionate impact on the College. The college are therefore considering options around the delivery of FAs as a way to help bring the college close to breakeven in 2022/23. The College has taken a prudent approach to their forecast as they excluded the Children Hearing Scotland (CHS) training contract which will expire in 2023/24, even though the college believes they have a good chance of retendering and renewing the contract.

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.

Wider scope

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

	Budget 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Total Income	20,769	20,142	19,563
Staff costs	(14,716)	(14,612)	(14,187)
Total other expenditure	(6,119)	(5,686)	(5,532)
Operating surplus/(deficit) before other gains and losses	**(66)**	**(156)**	**(156)**
Add back: Depreciation – net of deferred capital grant	317	317	317
Less: Cash based priorities allocated to loan repayments	(190)	(190)	(190)
Adjusted Operating Surplus / (Deficit)	**61**	**(29)**	**(29)**

The FFR shows figures close to breakeven throughout its timeframe. The College will continue to work to refine the income and costs reflected in their financial plans to meet or better these results.

The figures above are based on the following

- Income assumptions provided by the SFC;
- Decrease in income and related staff costs in between 2022/23 and 2023/24 is due to the Children's hearing Scotland contract coming to an end;
- Salary increasing from 71% to 72% of total expenditure
- Loan payments due to SFC have been suspended until July 2026, following the payment in 2020/21. Amounts that would have been paid to the SFC are planned to be invested into College estates.

The College, like so many in the sector, remain reliant on the SFC for funding decisions that will determine credit delivery going forward. We note that the College is largely on track for achievement of credits in 2021/22 following successful recruitment earlier in the year.

Asset Management and Estates Strategy

Wider scope

During 2020-21 the College produced its 5-year Estates Plan which captures the estates developments required to deliver on curriculum plans and give students the best possible learning experience. The Estates Plan is designed to complement the College strategic and operational plans and its key aim is to ensure maintenance of high-quality fit for purpose facilities, minimum environmental impact and operational sustainability. The Board of Governors, through the Finance & General Purposes Committee, will monitor the 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. Overall, across Scotland the total gross estimated backlog was £363 million.

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

During the year, two significant estates projects were undertaken, both of which were funded by the College alongside additional funding from the Scottish Funding Council. The first of these was to create a mezzanine floor within the engineering and construction faculty, to extend the space available and upgrade the equipment to enhance the student experience. Additionally, a project to reconfigure the ground floor of the main campus building to increase individual and collaborative flexible learning spaces, and including a new, modern Learning Centre, Student Association hub and Information Point was completed in the summer of 2021. Through additional funding received from the SFC, the College will complete works on the main building during 2021-22 with an extension to the front entrance.

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

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 Lothian College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Governors . 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 Governors , and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also attended Audit Committees during the year.

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, 9 female (including the Principal) and 9 male. In the current year the Board has 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.

During the year, the College had a co-opted independent member on the Audit Committee, who was appointed for their specific skills and expertise. We have found this arrangement works well, and encourage the College to continue this, where the need arises in future years if possible.

Governance and transparency (continued)

Covid-19 Governance arrangements

Following the Government announcement of the initial lockdown in 2020, the College's main form of teaching was online during the year as the ongoing Coivd-19 pandemic. As the law and regulations changed and lockdowns occurred during the year, online teaching was used.

As well as acting within government guidelines, student engagement was a main priority of the college throughout the pandemic as the remoteness of the new learning style had an impact on student experience. A Covid-19 committee meets every Friday within the college to discuss case numbers, government guidelines and ensuring that student interaction remains positive. Some of the ways student engagement was encouraged was through virtual industry talks, online student conferences and expert master classes. As a result the college has seen a very positive reaction to the blended learning approach.

In September 2020, most students returned to a more campus-based learning, with some of the less practical subjects continuing to be accessed remotely.

Board and Committees continued to meet on the same schedule during this period using appropriate virtual platforms.

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.

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 Azets. Internal Audit have attended Audit Committees throughout the year and have produced 8 reports to support the overall Annual Internal Audit Opinion.

Transparency

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

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 24 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	£14,260	£14,260
Pooled costs	£900	£900
Contribution to Audit Scotland costs	£590	£590
Total Fee	**£15,750**	**£15,750**

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.

Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify anynew 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.