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

Ayrshire College
Year ended 31 July 2022

Contents

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22 November 2022

Dear Members,

Annual Audit Report – Year ended 31 July 2022

We are pleased to present our Annual Audit Report for the year ended 31 July 2022. 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 & Risk Committee on 7 June 2022. 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 Mazars LLP.

Yours faithfully,

For and on behalf of Mazars LLP

1. 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 2022 and forms the basis for discussion at the Audit and Risk Committee meeting on 22 November 2022.

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.
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, including budgetary control, that help the Board members scrutinise finances. However, given the overall sector financial position, 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; • 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.

Status of our audit work

We have completed our work on the financial statements and wider scope work for the year ended 31 July 2022.

Internal control recommendation 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 four outlines the misstatements noted as part of our audit at the time of issuing this report. One adjustment has been noted to the accounts presented for audit, due to late guidance issued by the Scottish Funding Council.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum on 7 June 2022. 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 £1,048,000 using a benchmark (2%) of total expenditure. Our final assessment of materiality, based on the draft financial statements is £1,076,000 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	1,048	1,076
Performance materiality	838	861
Trivial threshold for errors to be reported to the Audit and Risk Committee	31	32

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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, judgements 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 base 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 inherence 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.

2. Audit of the financial statements

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

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 16 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 judgment

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.

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 by 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 of controls. 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. 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 our audit addressed this area of management judgement We addressed this risk by 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; and • The judgements made by management in determining when grantincome is recognised.
	Audit conclusion Satisfactory assurance has been gained in respect of the presumed risk of error in 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 we addressed this risk We addressed this risk by performing audit work over: • 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 error in expenditure recognition. We have no matters to report

Key Areas of Management Judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

Valuation of land and buildings	**Description of the area of focus** The College held land and buildings with a net book value of £126m as at 31 July 2022 (£129m 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 2021, there was no full revaluation in the current year. A valuation of land transferred to the Kilwinning Campus as part of the Future Skills Hub was performed during the 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 our audit addressed this area of management judgement

We have performed a range of substantive procedures including:

- Ensuring valuations and impairments have been completed on the appropriate basis and that movements are in line with expectation;
- Review of the reconciliation between the College's asset register and general ledger; and
- Considering the College's impairment review process for land and buildings.

Audit conclusion

Satisfactory assurance has been gained in respect of the valuation of land and buildings.

Valuation of pension liabilities	**Description of the risk** The College makes contributions to two pension schemes – the ScottishTeachers 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 our audit addressed this area of management judgement • Considering the arrangements put in place, including the controls, formaking 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 valuation and disclosures in the financial statements.

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 2021/22 and were appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 13 October 2022 at the start of audit fieldwork. The draft annual report was received during fieldwork on 2 November 2022. Both draft financial statements and the draft annual report were of good quality.

Producing good quality audit 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

At 31 July 2022 the College's share of the Strathclyde Pension Fund was recorded as a notional surplus as the value of the defined benefit obligation was less than the fair value of the plan assets at that date, meaning that the pension liability usually recorded is now a pension asset. We have had discussions with management as to the most appropriate accounting treatment and disclosure of the pension asset.

During the course of the audit, the financial position of the College changed resulting from a late announcement from the Scottish Funding Council (SFC) declaring that Colleges who had not met their credit targets could use a 2% tolerance for missed credit targets. This resulted in the College being able to release around £711k of a credit provision that was intended to be returned to SFC, into income. The impact was the reported adjusted operating position going from deficit to surplus as at 31 July 2022.

No other 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 cooperation 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 college staff for their cooperation throughout the audit.

3. 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 statements 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 of improvements that could be made.

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

4. Summary of Misstatements

This section outlines misstatements identified during the course of the audit, above the clearly trivial threshold for adjustment of £32k.

Adjusted misstatements

There was one adjusted misstatement identified during the course of the audit above the trivial threshold of £32k. This was as a result of late guidance issued by the Scottish Funding Council that allowed the College to take advantage of a 2% credit tolerance that would improve the financial position. This increased income by £711k and moved the adjusted operating position from deficit to surplus.

	SOCIE		Balance Sheet	
	Dr	Cr	Dr	Cr
	£’000	£’000	£’000	£’000
Funding body grants		(711)		
Amounts owed to SFC			711	
Being the adjustment to income following adoption of 2% credit tolerance				
		(711)	**711**	

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the clearly trivial threshold of £32k.

5. 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.

Dimension	Description	Our approach
Financial management	Financial management is concerned with financial capacity, sound budgetary processes andwhether the control environment and internal controls are operating effectively	We have considered: • the monitoring of the effectiveness of internal control arrangements • whether the College's budgetary control system is timely and accurate • whether and how the College has assessed their financial capacity and skills
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
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. The Governance Statement sets out the internal control arrangements and governance framework in place 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
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 andwhether 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

	2021/22 £'000	2020/21 £'000
Operating income	52,323	51,311
Staff costs	(37,897)	(36,772)
Operating expenditure	(15,905)	(15,621)
Operating Deficit for the year (FE/HE SORP basis)	**(1,479)**	**(1,082)**

The above table shows the financial performance of the College for 2021/22 and 2020/21 under the FE/HE SORP. Despite a deficit being shown over both years:

- The College's spending was in line with the plan;

- The College consistently reported a deficit during the year, albeit the level varied depending on the level of support that would potentially be available through credit tolerance from the SFC.; and

- The student core 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 SORP requirements. The following table reflects the 'adjusted operating position' as required by the Accounts Direction issued by the Scottish Funding Council. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions. Full details of the adjustments included are shown, as required, in the Performance Report within the Annual Report and Financial Statements.

	2021/22 £'000	2020/21 £'000
Deficit before other gains and losses	(1,479)	(1,082)
Add back		
• Depreciation (net of deferred capital grant release)	3,243	2,835
• Non-cash pension adjustments – net service costs	3,645	3,206
• Non-cash pension adjustments – net interest cost	357	405
• Non-cash pension adjustments – early retirement provision	(155)	43
Deduct		
• Non-government capital grants from ACF	-	(67)
• CBP allocated to loan repayments and other capital items	(954)	(954)
• NPD income applied to reduce NPD balance sheet debt	(1,425)	(1,355)
• Additional revenue funding allocated by SFC	-	(700)
SFC declared adjusted operating surplus	**3,232**	**2,331**

The Accounts Direction issued by the SFC for 2021/22 requires Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. The SFC have confirmed that they are satisfied with the above calculation from the College.

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

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

	2021/22 £'000	2020/21 £'000
Operating Deficit for the year (FE/HE SORP basis	(1,479)	(1,082)
Add:		
Depreciation budget for government funded assets (net of deferred capital grant) for the academic year	3,243	2,835
Operating surplus on Central Government accounting basis	**1,764**	**1,753**

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 2021/22. 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 along with 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 are 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 to be no unreasonable movements throughout the quarterly forecasts and budgets considering the ongoing impact of the recovery from the Covid-19 pandemic.

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.

In response to the late announcement by the SFC provided updated guidance on the 2% credit tolerance, the Finance team updated the adjusted operating position and wrote to the SFC asking to confirm the revised position. The SFC confirmed the revised position as being appropriate and therefore the Finance team processed the adjustment. The Board will be informed at the next meeting, due to take place in December.

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 and Risk 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 arrangement in place to be satisfactory and identified no material misstatements resulting from fraud or irregularity.

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, given the overall sector financial position, 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 and how we addressed the risk below.

Financial sustainability	**Description of the risk** During 2020/21, the College 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.
	How we addressed the risk We have addressed the risk by: • Reviewing the forecast financial position in the five-year financial plans submitted to SFC;

- Considering 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
- Considering how management have considered the longer term implications of the COVID-19 outbreak;
- Considering the Board's plans for the Kilwinning Campus.

Wider scope conclusion

During 2021/22, the College has prepared a five-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.

The Board has approved a decision, in principle, but subject to a final business case to retain the Kilwinning Campus at the end of the PFI contract, on 14 August 2025. As such, a £1.3m final payment will be required to be paid at this point. The College are highly likely to have to fund this from their own funds and this should be factored into future financial plans. This will either be 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.

Financial planning

This year the College has been requested to produce a five-year Financial Forecast Return (FFR) to the SFC.

SFC's FFR Call for Information set out two scenarios for colleges to consider.

Scenario One

The first scenario is the planning assumptions which are based on the Scottish Government's Spending Review.

The Key planning assumptions used in this scenario are as follows:

- Core grant funding will remain at 2022-23 levels
- Credit targets remain at 2022-23 levels
- Foundation apprenticeship funding cannot be guaranteed beyond 2022-23
- FWDF income levels from 2023-24 are likely to be reduced
- Capital maintenance funding will remain at 2022-23 levels

In addition, the College is required to apply pay and pricing uplifts across the five years of the FFR. The uplifts to be used are set out in the table below.

	2022-23	2023-24	2024-27
Pay awards	Public sector pay policy	2%	2%
Non-staff costs	3.7%	2.3%	2%
Gas unit price	3.7%	2.3%	2%
Electricity unit price	3.7%	2.3%	2%

The income and expenditure projections using SFC's planning assumptions result in the following in-year cash surplus / deficit:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
In-year cash surplus / (deficit)	43	(385)	(872)	164	(724)

Using the planning assumptions set out within the FFR, Ayrshire College would need to deliver a total of £1.774m of efficiency savings over the five-year period. These savings would need to be achieved across three of the five years.

The College is confident that it would be able to achieve these levels of anticipated savings by delivering further cash releasing efficiency savings covering both staff and non-staff budget areas. However, to frame the level of savings within a context and using 2020-21 median remuneration levels the College estimates that savings required would equate to the loss of 36.2 full time equivalent (FTE) staff members on the basis that saving were found solely from salary costs.

Further detail on the College's five-year forecast is included in the table below:

	Forecast 2022/23 £'000	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000	Forecast 2026/27 £'000
Total income	52,624	52,648	52,671	52,696	52,721
Staff costs	(36,050)	(36,219)	(36,920)	(37,635)	(38,364)
Total other expenditure	(16,852)	(17,118)	(17,252)	(16,305)	(16,565)
Operating deficit before other gains and losses	**(278)**	**(689)**	**(1,500)**	**(1,244)**	**(2,208)**
Total depreciation	3,079	3,079	3,079	3,079	3,079
Loan repayments	(954)	(954)	(954)	(945)	(945)
NPD payments	(1,490)	(1,440)	(1,502)	(716)	(640)
Adjusted operating surplus / (deficit)	**357**	**(4)**	**(877)**	**165**	**(723)**

Scenario Two

The second scenario asked for colleges to model alternative planning scenarios that are considered relevant to their operating and planning environment. To ensure consistency across the sector alternative assumptions were agreed by the FDN (Finance Directors Network).

The key planning assumptions used in the FDN Alternative Scenario matched those in the FFR. However, different assumptions were used in a number of other areas:

	2022-23	2023-24	2024-27
NTTF & YPG income	Nil	Nil	Nil
Reductions in FWDF income	20%	10%	10%
Pay awards	5%	5%	3%
Non-staff costs	9%	7%	7%
Gas unit price	230%	8%	17%
Electricity unit price	27%	54%	17%

The income and expenditure projections using those planning assumptions result in the following in-year cash deficits:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
In-year cash deficit	(1,702)	(3,960)	(5,575)	(5,542)	(7,655)

Using the planning assumptions set out using these assumptions the College estimate that they would need to deliver £24.434m of efficiency savings over the five-year period. Not insubstantial amounts of savings would need to be achieved each of the five years of the FFR.

If the £24.434m of savings were to be achieved solely through staff cost reductions the College estimates to equate to the loss of 498.9 FTE staff members based on 2020-21 median remuneration levels. During 2020-21 Ayrshire College had a total workforce of 707 FTE. Therefore, the level of savings required under the FDN Alternative Scenario cannot be achieved through a restructure or organisational review process. Ayrshire College could not function at its current capacity or deliver the educational credit activity included within our Regional Outcome Agreement with this level of staffing cuts.

Ayrshire College Alternative Scenario

Having reviewed the two scenarios set out in the FFR, the Board of Management supported the consideration of an alternative Ayrshire College planning scenario. This planning scenario reflects the tight financial environment and the fact that the College is constrained by the funding announced.

The Board recognised that the FDN Alternative Scenario would result in the College and wider sector no longer being financially sustainable. Therefore, if these projections proved to be a reality, then the sector would require to engage with SFC / Scottish Government on the future shape and size of colleges in Scotland.

Colleges would, however, have to make significant levels of saving. Therefore, for illustrative purposes, the Board approved management calculating the level of savings required by the College if it was required to achieve 25% of the savings resulting from the FDN Alternative Scenario assumptions.

Under this scenario Ayrshire College would need to deliver £6.108m of efficiency savings over the five-year period. These savings would need to be achieved across each of the five years.

If the £6.108m of savings was to be achieved solely through staff then this equates to the loss of 124.7 FTE staff members (based on the gross median remuneration level of £48,975).

The recovery from 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 there was a significant estimated net total backlog of maintenance and renewals cost of over £350m.

The Ayrshire College estate benefits from having a relatively new estate, maintained as part of PFI and NPD contracts. 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.

A decision was made by the Business, Risk and Infrastructure Committee, endorsed by the Board in December 2022, that the College's preferred option is the first, to make a final payment and purchase the campus, subject to a business case for the expenditure at the appropriate point. No formal decision is required under the PFI contract until September 2023. No provision is recorded as management consider there is no contractual obligation to purchase the campus as at 31 July 2022.

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.

The Governance Statement sets out the internal control arrangements and governance framework inplace for the year under review.

Our conclusion

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

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 2022, the Board consisted of 14 members, 8 female (including the Principal) and 6 male. The Board should consist of no less than 15 members, as set out in the Post-16 Education Scotland (Act) 2013. The reduction in Board members was caused by an unexpected resignation in June 2022 which was filled in August 2022. As new Board member appointments are made, the recruitment process will continue to try and maintain a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Act 2018.

The tenure of the Chair of the Board ended in March 2022. A new Chair is yet to be appointed, following a recruitment process that is led by the Scottish Government.

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.

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 and Risk Committees throughout the year and have produced 6 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.

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. The College achieved an adjusted operating surplus in the year. 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 2021/22 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.

6. 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 and Risk Committee on 7 June 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	Proposed fee 2021/22	Final fee 2021/22
Auditor remuneration	31,910	31,910
Pooled costs	1,630	1,630
Contribution to Audit Scotland costs	1,460	1,460
Total Fee	**35,000**	**35,000**

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

Appendix A

Independence

As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.