Ayrshire College

2022/23 Annual Audit Report to the Board and the Auditor General for Scotland

December 2023

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Key messages

This report concludes our audit of Ayrshire College for 2022/23.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	Our independent auditor's report includes: • an unqualified opinion on the financial statements; • an unqualified opinion on regularity; and • an unqualified opinion on other prescribed matters.
Key audit findings	We have reported our audit findings on pages 10-24. Our audit started on time and we received the draft management report and accounts ahead of our start date, subject to the update of a few disclosures including Related Parties.
Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We have identified no material adjustments to the financial statements but we did note a small number of disclosure amendments which we list in Appendix 2. These have been reflected in the finalised financial statements.
Accounting systems and internal controls	We have applied our risk-based methodology to your audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.

Wider scope audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** No major weaknesses in arrangements but scope for improvement exists The College is generally well managed financially but faces unprecedented and continuing challenges resulting from current levels of inflation (particularly in relation to utilities), and related public sector funding levels. The College has reported an operating deficit of £3.9 million for the year ended 31 July 2023. The College saw an increase in the year deficit when compared to the initial budget deficit of £0.3 million due to exceptional costs for voluntary severance, pension adjustment and the Kilwinning Campus end of contract payment. These items were excluded from the budget as they were not known at the point at which it was initially prepared and approved by the Board of Management in June 2022. The accounts also report cash balances of £11.7 million at 31 July 2023 and the College has sufficient cash reserves to meet liabilities for the foreseeable future. We have made a recommendation to the College in relation to general IT controls.

Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services and the way in which they should be delivered.	**Auditor judgement** Notable risks exist relating to ongoing financial pressures and given the fragility of future income/funding position. This is of notable risk to optimising successful financial sustainability and to the achievement of operational objectives.
	The financial position of the College is challenging as it is forecasting an operating deficit over the next three-year period in the region of £3.4 million. There remain a number of forecasting uncertainties in relation to staff pay awards, inflation and sector-wide issues which are contributing to increased financial risk and the unpredictability of the long-term financial position of the College. The future flat cash funding settlement outcome, as notified from the Scottish Government, will require a significant savings programme to be implemented and the College forecasts that this may result in a future reduction of 4% (FTE: 25) of its workforce over the next year. The College has also prepared an alternative scenario for the years 2022-26 with a more pessimistic assumptions of reduction in funding, pay increases and inflationary increases; this scenario would reduce the operating position by a further £8.5 million. An updated Infrastructure Strategy is required to ensure the College has sufficiently identified and prioritised the investment needed within its estate and can secure the required funding to support this. It would also enable the development of a mid to long term capital plan.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place The College has a clear vision and a Statement of Ambition 2030 in place to support it, with the latter being supported by a shorter term Statement of Ambition 2021-24 and Refresh & Renew Plan 2021-24. Governance arrangements at the College were found to be good. Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.
Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** No major weaknesses in arrangements but scope for improvement exists 2022/23 was another challenging year, however the College achieved 99% of its credit target and so was within the 2% threshold set by SFC to avoid any form of financial clawback. The College reports on nine key measures which covers both financial and non-financial aspects. Whilst the College has a set of reports to consider the performance against all Key Performance Indicators (KPI), its reporting in the annual report and accounts and in the reports to the Board is largely limited. The Board should be receiving a focused set of indicators with accompanying narrative to support them in making informed decisions. The Board has appropriate performance management processes in place that support monitoring and managing the performance, however more detail could be provided at this level. We understand that the College is developing a Board of Management KPI dashboard and would see this as a positive step to bridging this gap.

Definition

Our wider scope audit involves consideration of the College's arrangements as they relate to financial sustainability, financial management, vision, leadership and governance and use of resources to improve outcomes. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.

There is a fundamental absence or failure of arrangements
There is no evidence to support necessary improvement
Substantial unmitigated risks affect achievement of corporate objectives.

Arrangements are inadequate or ineffective
Pace and depth of improvement is slow
Significant unmitigated risks affect achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists
Pace and depth of improvement are adequate
Risks exist to achievement of operational objectives

Effective and appropriate arrangements are in place
Pace and depth of improvement are effective
Risks to achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our 2022/23 External Audit Plan, which we presented to the June 2023 Audit and Risk Committee at the outset of our audit. The core elements of our work include:

- an audit of the 2022/23 annual report and accounts and related matters;
- consideration of the wider dimensions of public audit work;
- monitoring the College's participation in the National Fraud initiative; and
- any other work requested by Audit Scotland.

Responsibilities

The College is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual report and accounts audit

The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings and conclusions to inform our opinion are set out in this section of our annual report.	We have issued an unqualified audit opinion on the 2022/23 financial statements.
Going concern basis of accounting	In the public sector, when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. Our wider scope audit work considers the financial sustainability of the College.	We reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date. In our going concern assessment, we take cognisance of matters relevant to public sector bodies. Our audit opinion is unqualified in this respect.

Opinion	Basis for opinion	Conclusions
Opinions prescribed by the Auditor General for Scotland on: • Performance Report and Governance Statement • Remuneration and Staff Report	We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.	The management report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • the information given in the Performance Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; • the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited part of the remuneration report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in June 2023. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the ‘Key Audit Matters’), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the annual accounts is not modified with respect to any of the risks described below.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	**Management override of controls**
Significant risk description	In any organisation there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with *ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.* This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the College’s controls for specific transactions. **Audit procedures** • Review the College’s accounting records and audit testing on transactions. • Adopt data analytics techniques in testing carried out. • Test high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness,

Risk area	Management override of controls
	corroboration and to ensure approval has been undertaken in line with the College's journals policy. • Review judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.
Key observations	We have completed our work and did not identify any indication of management override of controls. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
Significant risk description	Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted. The presumption is that the College could adopt accounting policies or recognise income transactions in such a way as to lead to a material misstatement in the reported financial position. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for revenue resource allocations from the Scottish Funding Council due to a lack of incentive and opportunity to manipulate transactions.

Key risk area	**Fraud in revenue recognition**
	Audit procedures • Evaluate the significant revenue streams and review the controls in place over accounting for revenue. • Consider the College's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and that the policies have been applied consistently across the year. • Test a sample of income items.
Key observations	Our work in this area has been completed with no issues identified.

Key risk area	**Fraud in non-pay expenditure**
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end. **Audit procedures** • Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. • Consider College's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review accruals around the year end to consider if there is any indication of understatement of balances held. Consider accounting estimates. • Test a sample of expenditure items.

Key risk area	**Fraud in non-pay expenditure**
Key observations	Our work in this area is complete. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Key risk area	**Pension Assumptions**
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgements** Given that small movements in the underlaying assumptions may translate into significant changes of the pension liability we deem this area to be subject to a high risk of misstatement. **Audit procedures** • Review the controls in place to ensure that the data provided from the pension fund is complete and accurate. • Review the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data. • Agree the disclosures in the financial statements to information provided by the actuary. • Consider completeness and accuracy of the information provided by the College to the actuary.

Key risk area	Pension Assumptions
	• Ensure that we can rely on actuary's work as an expert by obtaining sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.
Key observations	The actuarial report for the College identifies a pension surplus (or pension asset) of £24.2 million. This is a significant change to the prior year's pension asset of £11.5 million and is mainly driven by a significant increase in discount rate assumption between the years. The discount rate as of 31 July 2023 has been 5.05% and decreases the value of future pension obligations substantially which, when combined with no significant movement in the value of pension investments, results in a pension surplus outcome. Accounting standards require the College to review the pension surplus and only recognise the lower of the surplus or an 'asset ceiling'. A detailed technical guidance note on how to calculate the pension asset ceiling was issued by Audit Scotland early in July 2023, limiting the identified pension asset to a nil asset ceiling value which was processed in the draft financial statement. There is a reduction on the pension asset recognised in the prior year due to the change in the present value of future service costs which can result from a change in the College's underlying membership ages and/or profiles. The prior year pension asset ceiling was calculated as £13.4 million, which is higher than the recognised pension asset of £11.4m. As such, no adjustment is required to the prior year pension asset. We have observed a similar movement in several education sector entities this year. We have considered the actuarial assumptions and the Financial Reporting Standard 102 guidance in relation to asset recognition and presentation in the financial statements. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 Audit Evidence. From this review, we did not identify any items which gave us cause for concern over the suitability of the actuary.

Key risk area	Pension Assumptions
	We reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data. Our work is complete in this area.

Key risk area	Estates Valuation
Significant risk description	The College holds a significant estate, with net book value of land and buildings of £116.3 million as at 31 July 2023. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional valuations, with the latest independent valuation completed at 31 July 2023. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates and small changes in estimates have the potential to result in a material change in asset valuation.
How the scope of our audit responded to the significant risk	**Key judgements** There is the potential for management to use their judgement to influence the financial statements. **Audit procedures** • We ensured that assets are recorded in line with the Further Education Statement of Recommended Practice (FE SORP), Accounts Direction and the College's accounting policies, and have been accounted for appropriately. We reviewed asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This included looking to ensure there is professional advice and appropriate assurance over any impact of Reinforced Autoclaved Aerated Concrete (RAAC). • Where professional advice has been sought, we considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We considered the College's impairment review and communication with the valuer. In addition, we considered the scope of the valuer's work and the information provided to the valuer for completeness.

Key risk area	Estates Valuation
Key observations	The total value of the College's land and buildings decreased by £12.4 million as a result of the 2023 valuation. The buildings are of specialised nature and therefore are valued using a depreciated replacement cost method, which means that it would cost over £116.0 million to replace them as at 31 July 2023. The buildings valuation downward movement is due to a change in valuers between the last desktop valuation and this year's full valuation. As the movement is inconsistent with the increased inflation impact and overall increase in construction cost seen in the industry, we challenged the data input and assumptions used by the valuer, Gerald Eve. We were able to confirm that the data inputs were accurate and assumptions appropriate and in line with wider guidance. The College has not identified any assets impacted by use of RAAC. Initial visual inspections were undertaken by the College Estates Team. Two out of three campus were built in the 21st century and were therefore at low risk of having RAAC used in their construction. At the Ayr Campus, only the Dam Building (value of £12.4 million) was built prior to 21st century (built in 1966). However, since its initial construction, the roof was replaced and thus the risk of RAAC is deemed to be low across the whole campus. Further investigative works were undertaken by a firm of qualified building surveyors (Rudd Consultants) who reported that RAAC was not present in the building. We gained reasonable assurance over the valuation of estates at the year end and are satisfied that the estate is fairly stated in the financial statements.

Estimates and judgements

We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation rates, provisions for legal obligations, and accruals. We identified two accounting estimates listed below.

Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements	
Present value of retirement obligations	**Auditor judgement: Balanced**

Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2023.

The assumptions of the actuary, Hymans Robertson, were overall within our expected range. The assumptions were predominantly in the middle of our expected range.

We have challenged the assumptions used in the pension asset ceiling calculation as the asset cap has been calculated by using future working lifetime instead of perpetuity. However, updated calculations have shown that there is no impact on the pension asset recognised by the College as using perpetuity increase the cap.

	2022/23 **£m**	**2021/22** **£m**
Pension asset per draft accounts	Nil	11.5
Pension asset cap using future working life	Nil	13.4
Pension asset cap using perpetuity	Nil	80.4

Estimates and judgements	
Estates valuation	**Auditor judgement: Balanced**

We ensured that assets are recorded in line with the FE SORP and the College's accounting policies and have been accounted for appropriately. We reviewed the asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This year the College's assets were revalued by a professional valuer Gerald Eve.

We considered the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). The College performed an impairment review of the assets and did not identify any indication of impairment. The results of our subsequent review of the above evidence is that the estates net book value is not materially misstated.

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile the College and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the College and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

College Materiality

We based our initial assessments of materiality levels within our Audit Plan on the information available at that time i.e. prior years audited accounts. For the College's financial statements, the initial materiality was set at £910,000. On receipt of 2022/23 unaudited annual accounts, we reassessed materiality and increased it to reflect the movements in expenditure. We consider that our updated assessment has remained appropriate throughout our audit.

	£
Overall materiality for the financial statements	960,000
Performance materiality	720,000
Trivial threshold	48,000

Materiality	Our assessment is made with reference to the College's expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College. Our assessment of materiality equates to approximately 1.7% of the College's expenditure as disclosed in the 2022/23 unaudited annual accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceeds overall materiality.
Trivial misstatements	Clearly trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

We have identified no material adjustments as outlined above. We identified some disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the College. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

We did not identify any significant control weaknesses during our audit, however a number of weaknesses identified in relation to the general IT controls were identified and are included in recommendations.

Audit recommendations

An action plan and our recommendations are included in Appendix 3.

Other communications

Accounts preparation

We received the draft management report and accounts ahead of our start date, subject to the update of a few disclosures including Related Parties. These were of a good quality with a few minor disclosure amendments raised, as outlined in Appendix 2.

Accounting policies, presentation and disclosures

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.

The accounting policies, which are disclosed in the annual accounts, are in line with the FE SORP, and are considered appropriate.

We have concluded that the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting the Funds. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

We have obtained the signed letter of representation from the Board of Management.

Related parties

The first version of the accounts did not have the relevant disclosures made. The College updated the accounts following our findings.

Confirmations from third parties

We have received all third parties confirmations required for the purpose of our audit.

Wider Scope

Financial management

Financial performance

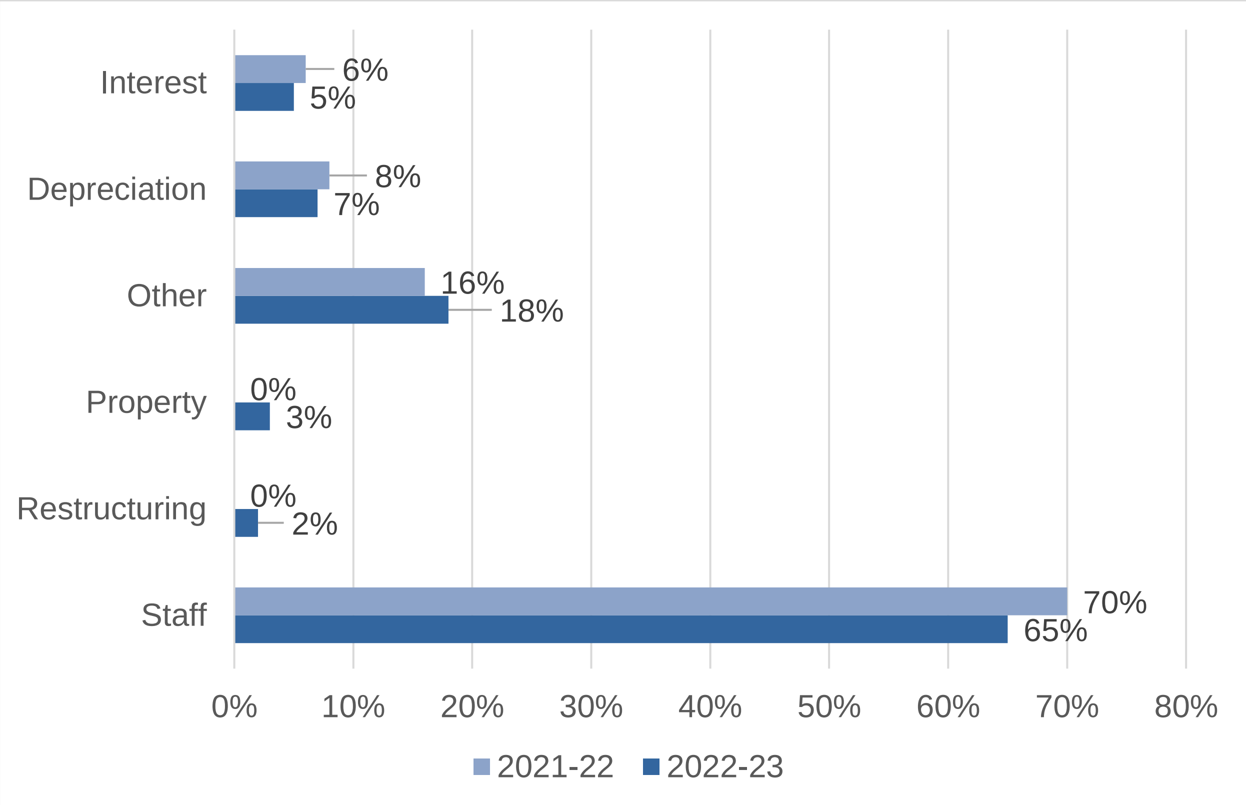
The College reports an operating deficit of £3.9 million for the year ended 31 July 2023. After adjusting the operating position for non-cash items that are out with the control of the College, such as pensions and net depreciation, the College shows an adjusted operating deficit of £1.2 million. The College saw an increase in year deficit when compared to the initial budget deficit of £0.3 million however the following costs were not budgeted for:

- £1.4 million of voluntary severance (VS) costs;
- £0.9 million of pension adjustments; and
- £1.5 million of exceptional property costs.

These items were excluded from the initial budget as they were not known at the point at which it was initially prepared and approved by Board of Management in June 2022. The VS scheme was opened in 2023 after consultation with SFC in late 2022 and it was determined during late 2022 that a provision should be made to reflect the decision to buy the Kilwinning Campus at the expiry of its lease. The pension adjustment is difficult to budget for due to the fluctuations in FRS 102.

The College's main source of income continues to be grant funding from the SFC (87.3% of total income in 2022/23). The financial position, excluding the exceptional costs which occurred in 2022/23, improved slightly in the year from budget (£1.0 million). This variance can be attributable to reduced staff costs in year.

Exhibit 1: Key expenditure items 2 years comparison

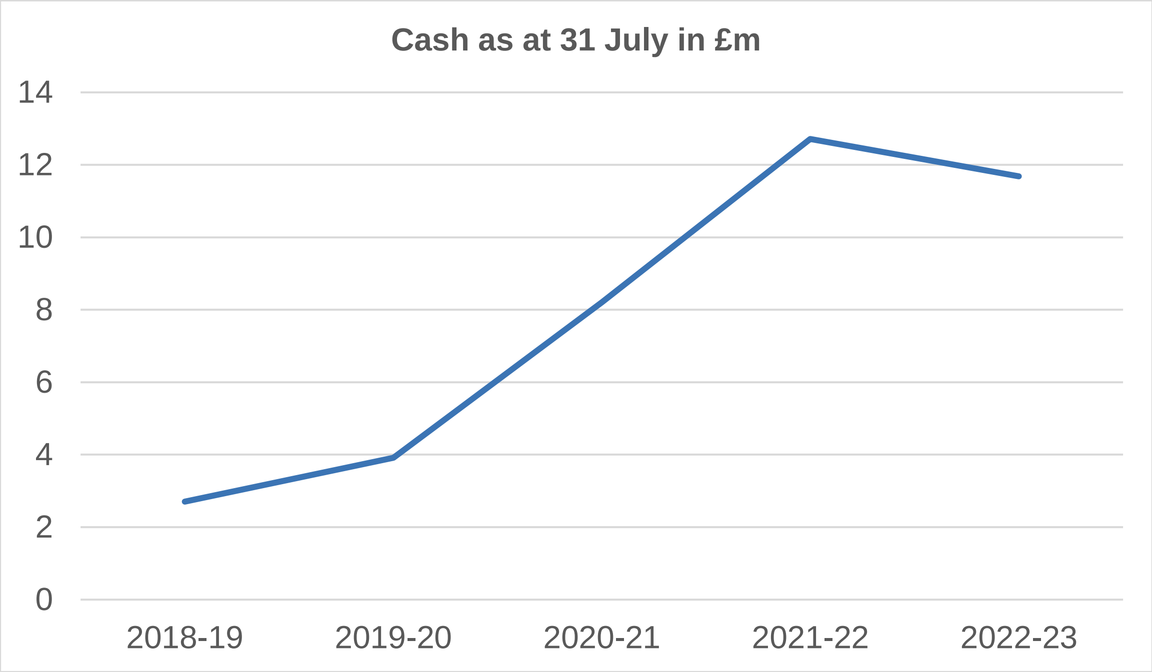


Staff costs, taken together with the job evaluation costs, continue to be the highest area of spend for the College accounting for 65.4% (70.4% in 2021/22) of total expenditure. When compared to the previous year these costs decreased by 2.2% mainly reflecting savings achieved from the severance scheme ongoing over the current year.

The cost of voluntary severance in the year was £1.4 million and 53 members of staff took advantage of the scheme in 2022/23. This represented around 6.3% of total headcount. The College's voluntary severance program closed in May 2023 with final departures expected in 2023/24.Review of the scheme shows it was compliant with SFC authorisation.

Cash position

Exhibit 2: Cash position over 5-year period



Operating cash held by the College was £11.7 million at year end. The cash balance remains high due to several payments not made during 2022/23 such as:

- £1.7 million accrual for the 2022/23 pay award;
- £0.6 million clawback in respect to Student Support Funds underspend;
- £0.8 million paid in September 2023 in respect to severances agreed in 2022/23;
- £0.6 million of payments in relation to the Future Skills Hub paid in August and September 2023; and
- £1.4 million of cash held to pay the Kilwinning Campus balloon payment.

The current cash position represents 53 days which is a fall from the prior year of 93 days. The College is required to have a cash position in line with requirement of maintaining a break-even position and having cash for working capital purposes.

Budget Setting

The Financial Memorandum between the Scottish Funding Council and the College sets out the formal relationship between both bodies and the requirements with which the College must comply in return for payment of grant by the SFC. The College's objectives in relation to the public funding it receives are set out annually in a Regional Outcome Agreement with the SFC.

The College's Vice Principal of Finance and Infrastructure is responsible for preparing an annual budget for approval by the Board of Management, and on the recommendation of the Business, Resources and Infrastructure Committee. The budget is informed by and aligned with the College's strategy documents.

The budget preparation process is built upon contributions from budget holders to ensure meaningful and achievable estimates are agreed.

We have reviewed the Management Accounts as at 31 July 2023, which compares the budget set at the start of the year versus the actual outcome, including detailed explanation for any variances which have occurred. As outlined above, the significant variances resulted from unknown costs at the time the budget was prepared.

Capital Expenditure

During 2022/23, the College built the Willie Mackie Future Skills Hub at the Kilwinning Campus which was opened for use on 21 September 2023. The total build cost as at 31 July 2023 was c.£2.3 million of which funding of £1.0 million was received from SFC, £0.3 million from College resources and £1.0 million received from external parties such as North Ayrshire Council, Ayrshire College Foundation, Magnox and the Nuclear Decommissioning Authority (NDA), through the Magnox Socio-economic scheme.

The lease for Nethermains Campus in Kilwinning will end in December 2023. This facility is no longer required for specialist STEM curriculum provision, as this will be delivered at the Willie Mackie Future Skills Hub going forward. A provision has been provided for the related dilapidation costs of ending this lease.

Systems of internal control

We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

We consider the system of control in place at the College to be good overall. Our work on general IT controls identified some weaknesses.

Recommendation 1

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. Recent incidents in other organisations have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

We have considered risks related to cyber security at the College within our integrated audit as part of our understanding of the College's use of IT. Based on this initial assessment, we concluded that overall arrangements are appropriate, caveated by our findings in relation to general IT controls as highlighted above.

Prevention and detection of fraud and irregularity

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

Internal Audit undertook a review in 2022/23 with a strong level of assurance provided relating to the arrangements in place to prevent and react to instances of fraud and only one recommendation being raised, which was assigned a low grading.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

The most recent NFI exercise commenced in 2022. The College uploaded the data in line with the requirements of the NFI in October 2022 ahead of the new data sets being released in January 2023. The College staff assessed the matches and investigated as appropriate. Only one match remains outstanding as the College is waiting on a response from the third party involved.

Overall, the College's arrangements with respect to NFI are satisfactory. We will follow up completion of the work as part of our 2023/24 audit.

Financial sustainability

Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Extract from External Audit Plan - Financial sustainability
Significant risk description The College continues to face significant financial challenges, operating within tight financial parameters, and continues to plan the measures required to ensure the College is in a long-term sustainable position. The greatest risks to the College's sustainability are those around levels of funding from SFC, particularly with the removal of the one-off elements funded through Barnett consequential in 2021/22, and the projected "flat cash" position for 2023/24 and beyond. The 2022/23 Financial Forecast Return (FFR), as approved by the Board in September 2022, anticipated an adjusted operating surplus of £0.4m in 2022/23 with future adjusted operating deficits totalling £1.4 million expected from 2023/24 to 2026/27. Ayrshire College prepared a further realistic forecast which considers the financial impact of a worst-case scenario. This alternative FFR anticipated an adjusted operating deficit of £1.4m in 2022/23. This is considered to be overall a more realistic forecast with the College requiring achieving savings of £6.108m in the five-year period. This equates to approximately 13.1% of 2022/23 expenditure budget when considering only staff costs and other operating expenses. Staff costs continues to be a significant pressure area for the College and a key aspect of the College's savings plan. With the uncertainty around the public sector pay settlements, any increase in staff costs will have a material impact on the finances of the College. The emerging and uncertain impact on the College's finances and the ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk. The underlying rationale within this scenario is that there would be sector support or intervention to mitigate the financial effects of the alternative scenario, while recognising that the College would require to find cash releasing efficiency savings at a higher level than those determined by the SFC assumptions.

Key observations

The College has continued to face significant financial challenges which will require additional cuts to planned expenditure to reach a long-term sustainable position.

Based on the most updated position in 2023/24 the College estimates operating deficit totaling of £3.4 million for the period between 2023-26. This position is based on 5% pay award assumption in 2023/24 and 3.5% after this, non-pay cost increase of 2% per annum. It also includes an expectation of no other additional sources of income and no change to the Scottish Government or SFC funding model.

Our work and conclusions on the budget and financial forecasts for 2022/23 onwards are set out below.

Short Term Financial Planning

The further education sector has received a 'flat cash' settlement from the Scottish Government for 2023/24 which equates to a reduction of 8.5% in real terms.

As a result, Scotland's further education sector, already in financial recovery following the impact of Covid-19, now faces a precarious financial future as general and wage inflation costs significantly exceed current funding levels.

The College is heavily reliant on SFC funding which currently represents c.87% of the College's total income and as such a small movement in grant funding has a significant impact on the College's financial position.

The SFC published final colleges funding allocations in May 2023. The 2023/24 SFC main grant allocation for the College is £38.4 million and this supports delivery of 111,480 of student credits. This credit target represents a reduction of 10% in education delivery, from 123,867 in 2022/23. Despite the reduction in the 2023/24 credit target, SFC core income remain consistent with the previous year (£38.4 million).

The College prepared its budget for the year 2023/24, prior to the actual SFC allocation being announced, based on the indicative allocations and detailed forecasts available at the time. The key assumptions include:

- The level of lifecycle estate maintenance funding will be kept at the same level as 2022-23;
- Tuition fees included within the draft budget have been calculated using the revised 2023-24 CDP based on expected student numbers after the 25% cut off point;
- The College has assumed only modest increases in commercial income and catering income;

- National pay harmonisation costs for curriculum staff and assumptions for consolidated cost of living awards of 5% in 2022/23 and 3.5% in 2023/24;
- Exceptional costs amounting to £0.98m in relation to the voluntary severance scheme which closed on 22 May 2023;
- Each non-salary budget has been built up from detailed meetings with budget holders; and
- Utility costs are purchased through an APUC contract, with the budget being prepared using utility bills received for April 2023. Whilst the APUC contract gives the College a fair degree of certainty over utility costs for the majority of 2023-24, on-going geopolitical events may result in further increases or unforeseen changes.

The budget for the year 2023/24 was presented to the Business, Resources & Infrastructure Committee in May 2023 before being taken to the Board of Management in June 2023. The College is projecting an operating deficit of £0.6 million before net depreciation. This includes £1.0m of costs relating to the transformational change activities and £0.9m of voluntary severance payments. Without these figures the College would have an operating surplus of c£1.4m, slightly above the operating surplus of £1.3m in the 2022/23 budget.

Medium Term Financial Planning

The Financial Strategy presented to the Board of Management in June 2023, covers the period 2022-2026. The College's overall strategy was taken into consideration when preparing this document.

Exhibit 3: Adjusted operating position over next three years

	2023/24 £m	2024/25 £m	2025/26 £m
Adjusted Operating Deficit	1.5	1.0	0.9

Source: June 2023 Financial Forecast

Based on the most updated position in 2023/24 the College estimates adjusted operating deficit totaling £3.4 million for the period between 2023-26. This position is based on 5% pay award assumption in 2023/24 and 3.5% after this, non-pay cost increase of 2% per annum. It also includes an expectation of no other sources of income and no change to the Scottish Government or SFC funding model.

At that point in time the College has also prepared an alternative scenario for the years between 2022-26 with a more pessimistic assumptions of reduction in funding, pay increases and inflationary increases – this scenario would reduce the operating position by a further £8.5 million.

The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2023/24 and in every subsequent year thereafter.

The key challenges facing the College

The College is facing the following challenges:

- flat cash SFC settlement meaning reduction in funding in real terms;
- impact of the inflation on the staff cost which is the main cost driver for the College;
- increased competition in the education sector; and
- cost of living increases and declining student number trends possible as a result.

The adjusted operating result is the key financial measure used by the College. It takes the operating position per the accounting standards and adjusts it to exclude non-cash items.

The current and next two years expected cash position of the College is favorable, therefore not raising any concerns in relation to a going concern assumption.

Impact on education provision

Due to the above financial constraints, the College must identify savings, with staff costs accounting for the majority of College spend. It is the main cost driver as a 1% change equates to c.£0.4 million increase/decrease in cost.

In the current year, the College generated savings through the voluntary severance scheme and decreased its workforce by 11 FTE in 2022/23, with a further reduction of 25 FTE expected in 2023/24.

Exhibit 4: Staff plans

	2022/23 FTE	2023/24 FTE
Voluntary severance	11	25
% of FTE	2%	4%

Source: June 2023 Financial Forecast

Ongoing/potential future reduction in staffing levels may impact the ability of the College to achieve its annual credit target and other national objectives, therefore having a knock-on effect on future financial and non-financial performance. This is likely to impact volume and range of course, qualifications and related learning journeys.

We do understand that these external factors (e.g. funding decisions, inflation, pay awards) are not entirely within the College's control and the College is considering all options to maintain appropriate levels of teaching delivery. At the same time, this challenge will be partly managed by an effective and continuously changing, scenario-based workforce plan.

The College has in place a People Strategy 2022-25. We note this document analyses the key issues and how the College intends to achieve its aims.

Capital plans - estates

The College had a high-level Infrastructure Strategy 2018-20 to address emerging and future needs. Two out of three of the College's Campus are operated under PFI/NPD contract and thus the maintenance of the infrastructure lies with the operators. However, the College had identified further investment for the improvement of the Dam Park building at the Ayr campus and general maintenance needs, including ensuring the IT infrastructure remains fit for purpose.

The delivery of the Infrastructure Strategy is overseen by the Vice Principal of Finance and Infrastructure and supported by the Estates Management Team with the Business, Resource and Infrastructure Committee oversight and reporting to the Board. This allows appropriate governance arrangements.

The grant funding allocated to the College is £0.2 million (2022/23 £0.2 million) with £0.9 million (2022/23 £0.9 million) identified for revenue maintenance grant purposes.

The College's approved Financial Regulations state that the Principal has delegated authority to "arrange for any necessary alterations or adaptations to College property at a cost of up to £250,000 in respect of one project, provided the alteration or adaptation does not affect any material change in the character of the College."

As such, this year's allocation of £0.2 million is within the Principal's designated responsibility for capital projects and therefore would not require BRIC approval for the works.

An updated Infrastructure Strategy is required to ensure the College has sufficiently identified and prioritized the investment needed within its estate and can secure the required funding to support this. It would also enable the development of a mid to long term capital plan.

Recommendation 3

Kilwinning Campus PFI Contract

The College's PFI contract for the Kilwinning Campus is due to expire on 14 June 2025. During 2019/20 the College obtained legal advice to understand any obligations and actions that should be taken in relation to the expiry, this advice identified three options:

1. Purchase the facility from KE Projects
2. Extend the terms of the agreement of the contract
3. Walk away from the Kilwinning campus facility

A paper was taken to the Business, Resources and Infrastructure Committee on 16 November 2021 outlining the options available, other contract provisions to consider and the proposed preferred option. The BRI Committee agreed in principle to recommend that the Board of Management pursues the option to purchase, subject to a future business case being presented at the appropriate time, within the timeline set out in the contract.

The intention to purchase the facility from KE Projects has been included within the College's FFR with a provision of £1.4 million being included in 2022/23 accounts. A project plan is being prepared to cover the building and facilities maintenance beyond June 2025 for the campus but this is not yet finalised.

Vision, leadership and governance

Our detailed findings on the College's arrangements are set out below.

Vision and leadership

The College approved the Statement of Ambition 2030 and Refresh and Renew Plan 2021-2024 in 2021. This document sits alongside the College's Outcome and Impact Framework which sets out how they will meet the Scottish Government's expectations and deliver value for money for the public investment we receive.

The Statement of Ambition 2030 sets out the College's ambitions and priorities across three ambitions:

- To be an accessible, inspirational, and inclusive place to work and learn;
- To support, empower and inspire our staff and students; and
- To be a high-performing, environmentally responsible college recognised for excellence, equality and integrity.

The interim Statement of Ambition covers the period 2021-24 at which it will be reviewed and updated as necessary.

Another key document is the Learning, Teaching and Student Engagement Strategy 2021-24. This Strategy aligns the strategic aims of the curriculum delivery with the wider ambitions of the College. The key aims and priorities refer to four themes: Students; Curriculum; Pathways and Quality. The Strategy outlines relevant actions against each of the themes.

There is a financial memorandum in place between the SFC and the College which ensures that the terms and conditions of grant funding are clear and understood.

Additionally, there is an annual Regional Outcome Agreement (ROA) which sets out planned outputs and objectives between the SFC and the College. From review of available committee and board minutes and papers, we are satisfied that the College routinely considers reports on the development and implementation of the ROA.

Governance arrangements

The Board of Management is responsible for ensuring the overall governance of the College. In driving forward the strategic direction of the College and ensuring the governance framework is operating as intended, the Board continues to be supported by five committees:

- Audit and Risk Committee;
- Business, Resources and Infrastructure Committee;
- Learning, Teaching and Quality Committee;

- Performance Review and Remuneration Committee; and
- Search and Nominations Committee.

The Board undertook an effectiveness review as required by the Code of Good Governance for Scotland Colleges. The review was performed by a self-assessment survey and reported to the Board at the October 2023 meeting. Overall, the additional feedback received from Board members was considered as positive. Several areas were identified for improvement, and these will be incorporated into the Board Development Plan.

Our review of the College's Governance Statement confirms that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the Accounts Direction.

Internal Audit

An effective internal audit service is an important element of a College's overall governance arrangements. The College's internal audit service is provided by Wylie Bisset. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the College's total audit resource.

Internal Audit annual assurance opinion was provided to the Audit and Risk Committee in October 2023. In their opinion the Internal Audit concluded that the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of audit work. This opinion also stated that proper arrangements are in place to promote and secure Value for Money.

Standards of conduct

In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.

Use of resources to improve outcomes

Our detailed findings on the Colleges arrangements are set out below.

Performance management arrangements

The Financial Memorandum between the SFC and fundable bodies in the college sector requires the Board to:

- have a strategy for reviewing systematically management's arrangements for securing value for money (VfM); and
- as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. The College is committed to ensuring value for money is achieved through good procurement practice and optimal use of procurement collaboration opportunities.

Performance framework

The College has a detailed College Operating and Enhancement Plan. This is overseen by members of the Executive Leadership Team who ensure individual targets and actions are being delivered by the lead member of senior staff. Regular performance monitoring papers are also presented to the Board.

Performance is monitored routinely throughout the year by the Board and progress against performance measures is presented to the Board annually for challenge and scrutiny.

Overall activity is managed by the Senior Management Team at monthly meetings where student activity targets are monitored along with performance against budget and achievement of planned activities for the year. Financial performance is also monitored regularly at the Business, Resources and Infrastructure Committee. The Board of Management are informed of the progress made towards key targets and performance through regular reporting.

Performance results

The College's performance against key performance indicators for academic year 2022/23 shows that for the first year the student credits target have not been exceeded. In 2022/23, the College delivered and claimed 122,552 credits against a SFC credit target of 123,867. The College was 98.9% against target and within the 2% threshold set by SFC to avoid any form of financial clawback.

Exhibit 5: Ayrshire College Performance against SFC Core Performance Indicators

No	Performance Indicator	2022-23	2021-22
1	Recurring Deficit as % of total trading income	(7.4%)	(3.0%)
2	Non SFC Income as % of Total Income	12.7%	11.6%
3	Credit activity target set by SFC	123,867	124,793
4	Credit activity achieved	122,328	126,404
5	Activity achieved against target	98.8%	101.3%
6	Current Assets: Current Liabilities	1.19:1	1.38:1
7	Gearing/debt	Nil	Nil
8	Days of recurring expenditure represented by period end cash	19	27

Source: Board of Management Report and Financial Statements 2022/23

The College reports on nine key measures: Credits; Apprenticeship Starts; Budget Performance against Plan; Trading Cash Levels held; Student Retention; Student Progression; Student Satisfaction; Staff Satisfaction; Employer/Stakeholder Satisfaction.

While the College has a set of reports to consider the performance against all KPIs, its reporting in the annual report and accounts is largely limited to student credit targets and financial measures, and it does not provide additional commentary measures that are key to students, for example on student satisfaction levels or students progression. Providing more information on the above to the Board has also been limited in that it doesn't expand on areas where targets are not being met and might not allow informed decision making.

Recommendation 2

Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 percent reduction in greenhouse gas emissions by 2030.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. All public bodies need to reduce their direct and indirect emissions and should have plans to do so. Many public bodies also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change.

The key actions the College have taken to reduce climate change are set out in the table below:

What targets has the body set for reducing emissions in its own organisation or in its local area?	The College's Sustainability Strategy commits to a net zero target by 2040, although it notes that this will include investment within its estates (e.g. replacing all it's gas boilers by 2025).
Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	The College has a Sustainability Strategy available on its website.
How does the body monitor and report progress towards meeting its emission targets internally and publicly?	The College reports within its Annual Performance Report on the actions taken to address the sustainability challenges faced by the College.
Has the body considered the impact of climate change on its financial statements?	Yes, the College considered impact on their financial statements as per the comment below.
What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	The College does not expect climate change to have a material impact on the financial statements in the short term.
Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?	Yes, the College consider financial sustainability in its financial statements, discussing its strategy, progress during the year and other activities.

Appendices

Appendix 1: Responsibilities of the College and the Auditor

Responsibilities of the College

The College has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	The College's responsibilities
Corporate governance	The Board of Management is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Board has responsibility for: • preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the College. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users

Area	The College's responsibilities
	about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.
Financial position	The College is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The 2021 Code came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the College and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223

Independence

The Ethical Standards and ISA (UK) 260 require us to give the College full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Our period of total uninterrupted appointment as at the end of 31 March 2023 was one year.

Audit and non-audit services

The total fees charged to the College for the provision of services in 2022/23 were as follows:

	Current year £	Prior year £
Auditor remuneration	51,070	31,910
Pooled Costs	(7,490)	1,630
Audit support costs	1,320	1,460
Sectoral cap adjustment	6,070	-
Total fee	**50,970**	**35,000**

The FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We provided advisory services to the College on VAT matters. We obtained clearance from our Ethics Partner and Audit Scotland prior to commencing the engagement. The work has been undertaken by a separate team from the audit, and the audit team has had no involvement in this VAT work.

Appendix 2: Audit differences identified during the audit

We are required to inform the College of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit.

Adjusted misstatements

We identified no adjusted misstatements during our audit.

Unadjusted misstatements

We identified no unadjusted misstatements during our audit.

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the College.

We identified some minor presentational issues in the College’s accounts, and these have all been amended by management. Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	Taxation note was updated to include missing information.
2.	Related parties disclosures were updated to include relevant amounts.
3.	The audit team raised minor and presentational issues with which were updated in the final accounts.

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated as follows:

Rating	Assessment rationale
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.

Current year action plan

1. IT general controls	**Medium**
Observation	Our specialist IT team reviewed design and implementation of IT general controls in the key systems impacting preparation of the financial statements and identified several areas for improvement. As this is a public report, we do not deem appropriate to include more detail, but this has been provided to the College separately.
Implication	Due to the weaknesses in the design and implementation of the controls there is a risk of fraud or error impacting financial statements.
Recommendation	We recommend that the specific IT points identified are addressed.

1. IT general controls	Medium
Management response	The College will work with the auditors to more fully understand the nature of the identified weaknesses and implement an action plan to address the noted weaknesses. **Responsible officer:** Head of ICT Services **Implementation date:** 31 March 2024

2. Performance indicators	Low
Observation	While the College has a set of reports to consider the performance against all KPIs, its reporting in the annual report and accounts is largely limited to student credit targets and financial measures, and it does not provide additional commentary measures that are key to students, for example on student satisfaction levels or students progression. Providing more information on the above to the Board has also been limited in that it doesn't expand on areas where targets are not being met and might not allow informed decision making.
Implication	The users of the accounts and Board members might not be able to make informed decisions due to insufficient detail provided.
Recommendation	We recommend the reporting is improved to explain student and other key issues to the decision makers.
Management response	The College will undertake a review of the content of the Performance and Accountability Report for 2023/24 in line with the auditor recommendation and against Audit Scotland best practice guidance. **Responsible officer:** Vice Principal Finance and Infrastructure **Implementation date:** 31 July 2024

3. Infrastructure Strategy	Low
Observation	The College has a high-level Infrastructure Strategy 2018-20 to address emerging and future needs. Two out of three of the College's Campus are held by PFI/NPD contract and thus the maintenance of the infrastructure lies with the operators. However, the contract for the Kilwinning campus is due to expire in June 2025, at which point the College take over the asset and become responsible for the ongoing maintenance and development.
Implication	We would expect there to be an updated Infrastructure Strategy, which aligns with the wider Statement of Ambition 2030, to establish how the College intends to manage its asset base over the mid to longer term period.
Recommendation	We recommend that an updated Infrastructure Strategy is developed to ensure the College has sufficiently identified and prioritized the investment needed within its estate and to ensure it can secure the required funding to support this. It would also enable the development of a mid to long term capital plan
Management response	In line with the refresh of the College Statement of Ambition, the College will develop a long term Estate Strategy for approval by the Board of Management. **Responsible officer:** Vice Principal Finance and Infrastructure **Implementation date:** 31 July 2024