

Technical Guidance Note 2025/1

Module 18

Guidance on potential misstatements specific
to colleges in 2024/25



 AUDIT SCOTLAND

Prepared for appointed auditors in the college sector

1 September 2025

Contents

Module 14 Introduction	3
14.1: Application of other modules to colleges	5
14.2: Presentation of financial statements and going concern	7
14.3: Financial statement areas	8
14.4: Remuneration and Staff Report	14
14.5: Statutory Other Information	15
Appendix 1 – Checklist – content of Performance Report	18

Module 18 Introduction

Purpose and use of this module

1. This module (at section 1) provides guidance on applying the other modules of [Technical Guidance Note \(TGN\) 2025/1](#) to the annual report and accounts of colleges.

2. Sections 2 and 3 provide guidance on additional risks of misstatement specific to colleges and supplementary guidance on risks of misstatement that also apply to central government bodies in the following financial statement areas:

- A complete set of financial statements
- Going concern basis of accounting
- Property, plant and equipment
- Employee benefits
- Group financial statements
- Grants and other income
- Disclosure of related parties, agency arrangements, and depreciation budget.

3. There is also supplementary guidance on the risks of misstatements in the following areas:

- Remuneration and Staff Report (section 4)
- Statutory Other Information (section 5).

Changes in risks of misstatement in 2024/25

4. The following risks have been removed on the basis that these are already set out in [TGN 2025/1](#):

- Changes in the net defined benefit asset estimate are not properly accounted for
- Pension benefit information is not properly disclosed
- Interest on the net defined asset is not properly measured
- Provisions for early retirement are not properly presented.

5. There have been changes to the risk on provisions, creditors and accruals.

Consulting with I&Q

6. Auditors should consult with I&Q by completing [the enquiry form](#) and sending it by email to TechnicalQueries@audit-scotland.gov.uk.

18.1: Application of other modules to colleges

7. The following tables summarise the application of the other modules of [TGN 2025/1](#) to a college annual report and accounts, and either provide supplementary guidance on some risks of misstatement or indicate the section of this module in which it is provided.

Overview Module

8. All sections of the Overview Module apply in principle to colleges. Supplementary guidance on risks of misstatement in respect of a complete set of financial statements and the going concern basis of accounting is provided at section 2.

Modules 1 to 9

9. The risks of misstatement set out in modules 1 to 9 may apply in principle to colleges, although auditors should be alert to differences in terminology used by FRS 102. The following table refers to areas where supplementary guidance on risks of misstatement specific to colleges is provided at section 3:

Module	Supplementary guidance provided on
Module 1 Property, plant and equipment	Accounting policy for measurement basis, impairment losses, and disclosures. Valuation of assets measured at depreciated replacement cost.
Module 2 Provisions, creditors and accruals	The accounting for the funding and costs of the support staff and middle management job evaluation exercise.
Module 4 Employee benefits	Early retirement provisions and the teachers' pension scheme is provided. Presentation of and changes in the measurement of a net defined benefit asset when a pension fund reports a surplus.
Module 6 Group financial statements	Treatment of Arm's Length Foundations (ALFs).
Module 8 Grants and other income	Accrual model of grant recognition and disclosures. IFRS 15 in respect of other income does not apply to colleges.
Module 9 Other financial statements areas	ALF transfers, and disclosures for agency arrangements, related parties and depreciation budget.

Module 10 Remuneration and Staff Report

10. Module 10B applies to colleges. Supplementary guidance is provided in section 4 on

- disclosing the Principal's remuneration
- disclosure of pension benefit information
- the analysis of staff by band.

Module 11 Statutory Other Information

11. All sections of Module 11B apply to colleges. The following table sets out supplementary guidance on some areas provided in section 5:

Section	Supplementary guidance provided on
Section 1 Performance Report	Required content.
Section 2 Governance Statement	Compliance with good governance.
Section 3 Other statements	Accountable Officer arrangements and the disclosure of staff turnover percentage.

Module 16 Charitable NDPBs

12. The sections on fund accounting and donations and legacies in module 16 apply to colleges due to their charitable status.

18.2: Presentation of financial statements and going concern

A complete set of financial statements is not properly presented

13. [SORP](#) section 3.1 sets out a complete set of financial statements for a college. FRS 102 section 4 sets out the requirements for a Statement of Financial Position as at 31 July 2025. The differences in the SORP compared with the 2024/25 Government Financial Reporting Manual (FReM) for the other financial statements as set out in the Overview Module are summarised in the following table:

FReM statements	SORP statements	FRS 102 requirements
Statement of Comprehensive Net Expenditure	Statement of Comprehensive Income (SoCI)	FRS 102 section 5 sets out the requirements for a SoCI.
Statement of Changes in Tax-payers' Equity	Statement of Changes in Reserves	FRS 102 section 6 sets out the requirements for a Statement of Changes in Reserves.
Statement of Cash Flows		FRS 102 section 7 sets out the requirements for a Statement of Cash Flows.
Notes to the financial statements		FRS 102 section 8 sets out requirements for the notes.

Going concern basis of accounting is not appropriate

14. Paragraph 3.27 of the SORP states that colleges normally prepare their financial statements on the basis of being a going concern. However, it requires the governing body to make its own assessment of the college's ability to continue as a going concern.

15. In I&Q's view, the FReM's interpretation of going concern for non-trading entities (explained in the Overview Module) applies to colleges, i.e. the anticipated continuation of the provision of further education, as evidenced by inclusion of financial provision in published documents, is normally sufficient evidence of going concern.

16. I&Q therefore expects colleges to adopt a going concern basis of accounting in 2024/25, unless there is evidence that the SFC deems that inappropriate for a particular college.

18.3: Financial statement areas

Property, plant and equipment

Accounting policy for measuring operational land and buildings is not appropriate

17. Colleges are required to account for property, plant and equipment in accordance with section 17 of FRS 102. Specific requirements are set out at SORP section 11.

18. Section 11.3 of the SORP allows the capitalisation of borrowing costs that are directly attributed to the acquisition, construction or production of an asset as long as this policy is applied to all assets.

19. The SORP allows property plant and equipment to be measured using either the cost model or the revaluation model. Although not specified in the [accounts direction](#), the SFC expects colleges to adopt a revaluation model.

Specialised assets are not properly measured

20. Section 11.12 of the SORP allows valuers to use the depreciated replacement cost (DRC) approach to estimate the fair value of property, plant and equipment where there is no market-based evidence of fair value. Under the DRC methodology, a valuer is required to adopt an instant build approach. [Guidance](#) issued by the Royal Institution of Chartered Surveyors (RICS) highlights that borrowing costs (which the valuer calls finance costs) should not be included in the valuation of the property where the instant build approach is adopted.

21. Borrowing costs should have been excluded from the valuation of specialised assets at 31 July 2025.

The accounting entries for impairment losses are not appropriate

22. Impairment losses should be recognised in the revaluation reserve to the extent that there is a credit balance relating to the impaired asset.

23. Impairment losses on revalued fixed assets during 2024/25 should have been recognised in the Statement of Changes in Reserves and set against any revaluation surplus until the carrying amount of the fixed asset reaches depreciated historical cost and thereafter in the SoCI.

Information on property, plant and equipment is not properly disclosed

24. The disclosure requirements of FRS 102 include (at paragraph 17.31 (e)) a reconciliation of the carrying amount at 1 August 2024 and 31 July 2025. There

is however no requirement in FRS 102 for a reconciliation in respect of prior periods to be disclosed.

Provisions, creditors and accruals

25. Until 2022-23, colleges recognised a provision or an accrual for the costs associated with the national bargaining and job evaluation process based on Colleges Scotland's February 2019 costings. Colleges also recognised the associated grant funding as deferred income.

26. Paragraphs 32 to 38 of the accounts direction's Appendix 1 provide guidance for 2024/25 that given ongoing uncertainty around the timing and costs of settlement, the SFC considers that the recognition of a provision is the appropriate accounting treatment.

27. As the grant funding, previously held in SFC reserves, has been returned to the Scottish Government, the SFC also consider that colleges should not recognise this funding as deferred income in 2024/25.

28. Colleges should have considered whether all three of the recognition conditions for a provision have been met. Where there is a present obligation but one or both of the other conditions are not met, a provision should not be recognised, but a contingent liability should instead be disclosed.

Employee benefits

The accounting policy for the Teachers' Pension Scheme is not appropriate

29. Most college employees are members of the Teachers' Pension Scheme, which both the SORP section 21.12 and sections 8.2 and 12.1 of the FReM require to be accounted for on a defined contribution basis.

30. Colleges should have accounted for the Teachers' Pension Scheme on a defined contribution basis in 2024/25.

Net defined benefit asset is not properly presented

31. The SORP para 21.25 requires colleges to account for the Local Government Pension Scheme as a defined benefit scheme, provided that the assets and liabilities relating to colleges can be measured on a reliable and consistent basis. It requires colleges to account for defined benefit schemes in accordance with paragraphs 28.14 to 28.28 of FRS 102.

32. Paragraph 28.22 of FRS 102 states that bodies should recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan. These requirements are consistent with the requirements of IFRIC 14 explained in Module 4. Although FRS 102 does not use the term "asset ceiling", this module uses the term to be consistent with the references in Module 4.

33. Any net defined benefit asset should have been presented in accordance with paragraph 28.22 of FRS 102 at 31 July 2025.

Provision for early retirements is not properly measured

34. Actuaries should not include the provision for early retirements in future employer contributions when calculating the asset ceiling at 31 July 2025.

35. There may be cases where unfunded payments were included in the asset ceiling calculations as at 31 July 2024. This may have impacted on the net defined benefit asset recognised on the Statement of Financial Position at that date. Colleges may need to request a recalculation of the asset ceiling at 31 July 2024 to determine the impact of the unfunded payments. Therefore, the comparative figures in the 2024/25 financial statements may require to be adjusted.

36. The SFC have advised colleges that they will not provide an appropriate discount factor as at 31 July 2025 or issue an accompanying spreadsheet for the calculation of a provision for early retirement costs. Colleges are expected to obtain this information from their actuaries.

Group financial statements

Subsidiaries are not complete or do not exist

37. Paragraphs 9.10-9.11 of FRS 102 states that consolidation as a subsidiary may be required where the objects of another entity are substantially or exclusively confined to the benefit of the college. This may be the case, for example, where the objects of an ALF are set so narrowly that the benefits cannot be applied to any party other than the college.

38. When evaluating control, colleges should have examined the documentation for their local ALF and considered whether the objects of the charitable foundation are substantially or exclusively confined to the benefit of the college.

Associates are not complete or do not exist

39. Where a college does not control an ALF, it may exercise significant influence. Significant influence is defined in paragraph 14.3 of FRS 102 as follows:

- If a college holds 20% or more of the voting power of an entity, it is presumed that it has significant influence, unless it can be clearly demonstrated that this is not the case.
- Conversely, if the college holds less than 20%, it is presumed that there is not significant influence, unless such influence can be clearly demonstrated.

40. In addition to voting share, in order to conclude on whether there is significant influence, colleges should have considered other issues around the operation of the ALF including whether there is evidence, for example, that:

- the ALF has approved applications from third parties
- the ALF has rejected applications from the college

- there is a clear applications process which has been applied consistently
- the college's ability to exercise influence is included within the ALF governing documents.

Grants and other income

Accounting policy for grants is not appropriate

41. Colleges are required to account for government grants in accordance with section 24 of FRS 102. Specific requirements are set out in the SORP at paragraphs 17.11 to 17.17.

42. The SORP Section 17 allows revenue and capital (other than for land) government grants to be accounted for by applying the accrual model or performance model. Colleges must apply the chosen approach consistently for each class of grant (i.e. capital grant for land, other capital grant and revenue grant). The SORP requires capital grants for land to follow the performance model.

43. Whichever policy is adopted, government grants are not recognised until there is reasonable assurance that the college will comply with the conditions attaching to them and that the grants will be received.

44. Guidance on SFC funding is provided at paragraphs 6 and 7 of [guidance notes](#) on the 2024/25 financial statements issued by the SFC. Annex A of the guidance notes provide a model disclosure note.

The accounting treatment of grants under the accrual model is not appropriate

45. Under the accrual method, revenue government grants should be recognised as income on a systematic basis over the periods in which the college recognises the related costs for which the grant is intended to compensate.

46. In normal circumstances, grant is returned if outcome agreement targets or other specified conditions are not met. Colleges should have established which conditions apply in practice to particular funding streams in 2024/25 to ensure grant is properly recognised.

The accounting treatment of grants under the performance model is not appropriate

47. For grants accounted for under the performance model, colleges should have recognised grant when performance-related conditions are met.

Information on grants is not properly disclosed

48. Annex A of the [guidance notes](#) contains a model note which colleges are required to adopt as far as possible. Any significant one-off or ring-fenced grants should be identified on a separate line. Smaller grants may be grouped together under the 'other' heading, but this should not represent a significant portion of the total grants received.

49. Colleges should have made the required disclosures in 2024/25.

Related parties disclosure

Disclosed related parties are not complete

50. In accordance with paragraph 33.2 of FRS 102, related parties for colleges include:

- those members of the governing body (and close members of their family) who hold influential posts in public bodies (e.g. local authorities, non-departmental public bodies, etc), private sector organisations with which the college has transactions, and ALFs
- senior staff, including those who hold influential posts in other bodies with which the college has transactions, e.g. an NHS board
- associates, collaborations and joint venture entities not fully eliminated on consolidation
- pension schemes for the benefit of employees of either the college or an entity related to the college.

51. Colleges should have given due consideration as to whether bodies such as students' unions and separate development trusts are related parties in the context of FRS 102.

Agency arrangements disclosure

Disclosed agency arrangements are not complete

52. Colleges act as agents when they disburse funds on behalf of a funding body, and have no beneficial interest or risks related to the receipt and subsequent disbursement of the funds.

53. Paragraph 11 of the guidance notes lists the following as being agency arrangements:

- further education bursary funds
- discretionary funds
- educational maintenance allowances.

54. Agency arrangements do not include

- bursaries or scholarships made from a college's own funds
- childcare funds.

Depreciation budget disclosures

Information on depreciation budget is not properly disclosed

55. Paragraph 48 of Appendix 2 to the [accounts direction](#) requires an explanation of the impact of the depreciation budget for government-funded assets to be disclosed in:

- a statement at the foot of the SoCI; and
- a note to the accounts.

56. An illustrative form of words for the disclosure is provided at Appendix 5 of the accounts direction. An explanation is required because the combination of the following factors leads to a deficit in the SoCI equivalent to net depreciation:

- The depreciation budget cannot be recognised as income in the SoCI.
- Colleges are required to spend the entire cash allocation.

57. Colleges should have made the required disclosures in 2024/25.

ALF donations and grants

Donations to/grants from arms' length foundations are not properly presented

58. Colleges have generally donated their surpluses to ALFs to bring them outside Scottish Government budgeting limits. Paragraph 20 of the SFC guidance notes recommends that the donation should be included above the operating surplus line in the SoCI and for this to be clearly disclosed.

59. Paragraph 9 of the guidance notes requires colleges to disclose separately any revenue or capital grants received from ALFs.

60. Colleges should have clearly presented the donation/grant for 2024/25 in the SoCI.

18.4: Remuneration and Staff Report

Remuneration information is not properly disclosed

61. Paragraphs 68 to 74 of the [accounts direction's](#) Appendix 2 set out the requirements for the Remuneration and Staff Report (and an example is set out at Appendix 6).

62. However, paragraphs 79 and 81 of the direction's Appendix 2 allow the option of disclosing the remuneration of the Principal in a note to the financial statements, with only a cross reference in the Remuneration and Staff Report (or vice versa).

63. I&Q recommends that the remuneration of the Principal should be included in the Remuneration and Staff Report with the other senior officers. In either case, it should be covered by the opinion on the Remuneration and Staff Report.

Audited information in the staff report is not properly disclosed

64. Paragraph 72 of Appendix 2 requires the number of senior staff by band to be disclosed in the staff report section. This disclosure should be audited.

65. However, paragraph 80 requires colleges to disclose in the notes:

- the total number of higher paid staff in bands of £10,000 earning over £60,000
- the number of senior post-holders within each band.

66. To avoid duplication, paragraph 81 of Appendix 2 allows the information to be disclosed in one place cross-referred to the other. I&Q recommends that the information be disclosed in the staff report. In either case, it should be covered by the opinion on the Remuneration and Staff Report.

18.5: Statutory Other Information

Performance Report is not in accordance with the accounts direction

67. The [accounts direction](#) sets out requirements for the Performance Report at paragraphs 41 to 55 of Appendix 2. The accounts direction requires compliance with the disclosure requirements of the FReM. In addition to the requirements of the FReM applicable to Scottish bodies generally explained in module 11B of [TGN 2025/1](#), paragraph 41 of Appendix 2 in the accounts direction also requires colleges to include the following in the Performance Report overview section:

- A statement from the college Principal providing their perspective on performance
- A short summary explaining the purpose of the overview section.
- Confirmation of compliance with Scottish Government sustainability reporting under the Climate Change (Scotland) Act 2009.

68. In addition to FReM requirements, the accounts direction requires disclosure of the items in the following table:

Requirement	Explanation
Overview section	
Payment of suppliers	<p>A statement describing the payment practice code or policy adopted regarding the payment of suppliers and the performance achieved.</p> <p>Disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998, or a statement that no such interest was required.</p>
Details of the adjusted operating position (AOP)	<p>The AOP is intended to reflect the underlying operating performance of a college after adjusting for material one-off or non-cash items (e.g. depreciation, pension adjustments, exceptional income or expenditure).</p> <p>Colleges are required to explain each adjusting item, and each one requires to be separately disclosed in the SOCI or notes and should be cross-referenced from the AOP disclosure.</p> <p>The template for the AOP calculation is shown in Appendix 4 of the direction.</p>
Performance analysis section	

Requirement	Explanation
Public sector equality duty	<p>A description of the way in which the college has promoted the equality of service provided to different groups and had due regard to the public sector equality duty under the Equality Act 2010.</p> <p>This may include a cross reference to separately published reports dealing with equality duties.</p>
Fair work practices	<p>A commentary outlining the Fair Work practices that have been developed in agreement with the college's workforce and the progress made in their implementation. The commentary must demonstrate how the institution is complying with the seven Fair Work First requirements.</p>

69. As a result of the different requirements, a checklist specific for colleges is provided at appendix 1 to this module which auditors may find useful when carrying out test procedure 2 set out in Module 11B.

Governance statement is not in accordance with the accounts direction

70. The accounts direction requires colleges to include with their financial statements a statement covering the responsibilities of their board of management in relation to corporate governance. Paragraph 86 of the direction's Appendix 3 requires colleges to refer to the Good Practice Note on Governance Statements published by I&Q.

71. Paragraph 63 of Appendix 2 clarifies that colleges should comply with the FReM as well as the Scottish Public Finance Manual when preparing the Governance Statement. Paragraph 65 requires the Governance Statement to explain any changes to the governance arrangements of the college, resulting from the exceptional inflationary pressures extended on the sector.

72. The SFC requires the governance statement to indicate how the college has complied with good practice in this area, including [the Scottish Code of Good Governance \(September 2022\)](#), which colleges are required to comply with as a condition of grant. Colleges are required to include either a statement confirming compliance with the code or explanations for any non-compliance. The template to be used for the compliance statement is provided at Appendix 3(a) of the direction.

Statement of responsibilities is not in accordance with accounts direction

73. Paragraph 60 of the accounts direction's Appendix 2 explains that, due to governance arrangements in the sector, colleges are required to provide a statement of responsibilities of the board of management rather than the Accountable Officer.

Unaudited part of Remuneration and Staff Report is not in accordance with the accounts direction

74. Paragraph 72 of the [accounts direction's](#) Appendix 2 set out the requirements for the staff report section of the Remuneration and Staff Report. In addition to the requirements of the FReM that apply in Scotland explained in Module 11B of TGN 2025/1, the direction requires colleges to disclose the staff turnover percentage.

75. Although no further guidance is provided, this relates to the requirement in the 2024/25 FReM at paragraph 6.5.44 (e). This requirement would not otherwise apply in Scotland but the direction applies it to colleges. The FReM requires bodies to disclose staff turnover in accordance with [Cabinet Office guidance](#). Information should be provided with sufficient explanation and context, including trend data where appropriate.

Appendix 1 – Checklist – content of Performance Report

Required item	Yes/No/N/A
Performance Overview	
1. A short summary explaining the purpose of the Overview section	
2. A statement from the college Principal providing their perspective on the performance of the college for 2024/25, including an explanation of the impact of current inflationary pressures and geopolitical issues on performance	
3. A statement of purpose and activities of the college including a brief description of the business model and environment, organisational structure, objectives and strategies, including the estates management strategy	
4. A summary of organisational goals	
5. A summary of the principal risks faced and how these have affected the delivery of objectives, how they have changed, how they have been mitigated and any emerging risks that may affect future performance	
6. An explanation of the adoption of the going concern basis where this might be called into doubt	
7. A summary performance appraisal, providing a synopsis of the performance analysis section, and detailing whether performance has met expectation, including an explanation if performance is below expectation	
8. Confirmation of compliance with Scottish Government sustainability reporting requirements	
9. Details of the adjusted operating position	
Performance Analysis	
11. Objectives and progress made against them, using unbiased indicators, incorporating qualitative, quantitative and prior year information	
12. Further detail on the structure of the college where beneficial	
13. Trend information in indicators	
14. A financial review, detailing financial performance using any further key financial indicators or measures	
15. Detail on future plans, and expected future performance, including anticipated changes in the structure or strategic objectives	

Required item	Yes/No/N/A
16. A statement describing performance against the prompt payment code.	
17. A description of the way in which the college has promoted the equality of service provided to different groups and had due regard to the public sector equality duty under the Equality Act 2010	
18. A commentary outlining the Fair Work practices that have been developed in agreement with the college's workforce, the progress made in their implementation, and demonstrating how the college is complying with the seven Fair Work First requirements.	

TGN 2025/1

Module 18

Guidance on potential misstatements specific to colleges in 2024/25

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or **[subscribe to our email alerts.](#)**



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk