



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

West College Scotland
Year ended 31 July 2022

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Appendix A – Independence

This document is to be regarded as confidential to West College Scotland. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Board of Management. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

The Joint Audit / Corporate Development Committee
West College Scotland
Paisley Campus
Renfrew Road
Paisley
PA3 4DR

22 November 2022

Dear Members,

Audit Strategy Memorandum – Year ended 31 July 2022

We are pleased to present our Annual Audit Report for the year ended 31 July 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented to the Audit Committee on 26 May 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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

If you would like to discuss any matters in more detail then please do not hesitate to contact Mazars LLP.

Yours faithfully,

For and on behalf of Mazars LLP

1. Executive Summary

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of West College Scotland ('the College') for the year ended 31 July 2022 and forms the basis for discussion at the Joint Audit / Corporate Development Committee meeting on 22 November 2022.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice ('the Code') issued by Audit Scotland. We have the following conclusions:

Opinion on the financial statements	We issued an unqualified opinion, without modification, on the financial statements.
Opinion on regularity	We issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.
Opinion on other requirements	We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely, that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	<p>We concluded as follows against each of the four wider scope dimensions:</p> <ul style="list-style-type: none"> • The College has effective arrangements, including budgetary control, that help the Board Members scrutinise finances; • The College has adequate financial planning arrangements in place. The long-term operational funding gap previously identified by the College as well as a need for significant capital investment increases and becomes more urgent. The College is reliant on the outcome of dialogue with the Scottish Funding Council to ensure future capital investment is made and therefore the risk of the College not being financially sustainable is partially reduced. • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management; and • The College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Status of our audit work

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

Internal control recommendation and misstatements

We did not identify any significant control weaknesses during our audit and have not raised any internal control recommendations. There were also no internal control recommendations from prior years to provide an update on.

Section four outlines the misstatements noted as part of our audit. One adjustment has been noted to the accounts presented for audit, due to late guidance issued by the Scottish Funding Council.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum on 26 May 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever changing business needs. Our aim is to add value to West College Scotland through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set materiality at the planning stage of the audit at £1,334,000 using a benchmark (2%) of total expenditure. Our final assessment of materiality, based on the draft financial statements is £1,334,000 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	1,334	1,334
Performance materiality	1,067	1,067
Trivial threshold for errors to be reported to the Audit Committee	40	40

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgements and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements

We consider materiality whilst planning and performing our audit base on quantitative and qualitative factors.

Performance materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherent risk level assessed. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality. This assessment has not changed during the audit process.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

2. Audit of the financial statements

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

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 14 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgment

As part of our planning procedures, we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although our report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process, and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

**Management
override of
controls**

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by performing the following audit work:

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

Audit conclusion

Satisfactory assurance has been gained in respect of the presumed risk of management override of controls. We have no matters to report.

Revenue recognition

Description of the risk

There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding.

The presumption is able to be rebutted, which we have done for the College's grant income, as it carries very low inherent risk of fraud or error in its recognition. However, the risk does apply to non-core grant income and other income generated by the College.

How our audit addressed this area of management judgement

We addressed this risk by performing the following audit work:

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

Audit conclusion

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

Expenditure recognition**Description of the risk**

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

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

How we addressed this risk

We addressed this risk by performing the following audit work:

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

Audit conclusion

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

Key Areas of Management Judgement

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

Valuation of land and buildings

Description of the area of focus

The College holds land and buildings with a net book value of £106m as at 31 July 2022.

In line with the requirements of the Government Financial Reporting Manual and FRS 102, the College has adopted a formal revaluation policy of a desktop valuation every five years, with a desktop, interim valuation performed during the five year period. As the external valuation was performed at 31 July 2021, there was no revaluation in the current year.

The College policy meets the requirement of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value. The College is required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date.

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

How our audit addressed this area of management judgement

We have performed a range of substantive procedures including:

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

Audit conclusion

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

**Valuation
of pension
liabilities**

Description of the risk

The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College’s share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme. The College’s share of the SPF’s underlying assets and liabilities is identifiable and is recognised in the accounts.

Given the scale of the liability recognised, a misstatement in the reported position could be material to the financial statements

How our audit addressed this area of management judgement

- Considering the arrangements put in place, including the controls, for making estimates in relation to pension entries in the financial statements; and
- Considering the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts

Audit conclusion

There have been no other significant findings arising from our review of the defined benefit asset valuation and disclosures in the financial statements.

Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2021/22 and were appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 21 September 2022 at the start of audit fieldwork. The draft annual report was received during fieldwork on 27 October 2022. Both draft financial statements and the draft annual report were of good quality.

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

Significant matters discussed with management

During the course of the audit, the financial position of the College changed resulting from a late announcement from the Scottish Funding Council (SFC) declaring that colleges who had not met their credit targets could use a 2% tolerance for missed credit targets. This resulted in the College being able to release around £886k of a credit provision that was intended to be returned to SFC, into income. The impact was the reported adjusted operating position going from deficit to surplus as at 31 July 2022.

As part of the College's annual asset impairment review, problems were identified in the Oakshaw building regarding electrical circuitry. The identified issue caused the building not to be used in the short term and concerns that the building would not be fit for purpose longer term, and hence the value of the asset in use would require to be impaired in the financial statements. The College appointed professional surveyors for advice on necessary maintenance required to ensure the building returned to a condition fit for purpose. The College are in the process of carrying out appropriate repairs to allow the building to continue in its operating capacity. Therefore no impairment was considered necessary in the financial statements.

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

Significant difficulties during the audit

We completed our audit remotely. During the course of the audit we did not encounter any significant difficulties and we have had the full cooperation of management. The draft accounts, working papers and annual report were all provided in line with the agreed timetable. We would like to express our thanks to management and college staff for their cooperation throughout the audit.

3. Internal Control Recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

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

4. Summary of Misstatements

This section outlines misstatements identified during the course of the audit, above the clearly trivial threshold for adjustment of £40k.

Adjusted misstatements

There was one adjusted misstatement identified during the course of the audit above the trivial threshold of £40k. This was as a result of late guidance issued by the Scottish Funding Council that allowed the College to take advantage of a 2% credit tolerance that would improve the financial position. This increased income by £886k and moved the adjusted operating position from deficit to surplus.

	SOCIE		Balance Sheet	
	Dr	Cr	Dr	Cr
	£'000	£'000	£'000	£'000
Funding body grants		(886)		
Amounts owed by SFC			6	
Amounts owed to SFC			880	
<i>Being the adjustment to income following adoption of 2% credit tolerance</i>				
		(886)	886	

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the clearly trivial threshold of £40k.

5. Wider Scope

Our approach to Wider Scope work

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

- Financial sustainability
- Financial management
- Governance and transparency; and
- Value for money

The table overleaf sets out the four dimensions of wider scope and our adopted approach.

Dimension	Description	Our approach
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively	We have considered: <ul style="list-style-type: none"> • the monitoring of the effectiveness of internal control arrangements • whether the College's budgetary control system is timely and accurate • whether and how the College has assessed their financial capacity and skills
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the College's arrangements for financial planning and affordable and sustainable service delivery	We have considered: <ul style="list-style-type: none"> • the financial planning system in place for short, medium and long term periods • the adequacy and accuracy of financial reporting arrangements • the reasonableness of affordability assumptions made in financial planning
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review	We have considered: <ul style="list-style-type: none"> • The effectiveness of internal control arrangements • the appropriateness of disclosures made in the Governance Statement • whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met
Value for money	Value for money concerns using resources effectively and continually improving services	We have considered: <ul style="list-style-type: none"> • the College's evidence of providing value for money • the focus on improving value for money and the pace of change at the College.

Financial management

Dimension

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

Our conclusion

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

Financial performance

FE/HE SORP position

	2021/22 £'000	2020/21 £'000
Operating income	60,443	58,985
Staff costs	(48,266)	(46,876)
Operating expenditure	(18,471)	(17,847)
Operating Deficit for the year (FE/HE SORP basis)	(6,294)	(5,738)

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

- College spending was in line with the plan;
- The College consistently reported a deficit during the year, albeit the level varied depending on the level of support that would be potentially be available through credit tolerance from the SFC.
- The increase in staff costs is partially due to increase in voluntary severance costs, mainly relating to the decision to close the nursery provision at the College. These costs should result in future efficiencies to help manage the budget.

Adjusted operating position

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

	2021/22 £'000	2020/21 £'000
Deficit before other gains and losses	(6,294)	(5,738)
Add back		
• Depreciation (net of deferred capital grant release)	3,209	2,732
• Non-cash pension adjustment – net service cost	3,420	3,122
• Non-cash pension adjustment – net interest cost	509	625
Deduct		
• Loan repayments	(342)	(527)
SFC declared adjusted operating surplus	502	214

The Accounts Direction issued by the SFC for 2021/22 requires Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. The College has submitted a revised position following SFC's announcement of a 2% tolerance on credit achievement. The SFC have confirmed they are content with the College declared Adjusted Operating Position.

The table above shows that once the non-cash and other applicable adjustments are made, the College has achieved an adjusted operating surplus in the year of £502k. Before the credit tolerance was offered by the SFC, the College would have reported an adjusted operating deficit of £384k. The College has operated within its budget for the 2021/22 financial period in line with previous years despite numerous challenges faced such as increasing other operating expenses due to the return to in person campus-based learning and ongoing maintenance costs of an ageing estate. Staff costs also increased due to wages rising from agreed cost of living and national insurance increases in the year, along with cost of Voluntary Severance paid due to the closure of nursery facilities, restructure of the campus catering service and a voluntary severance scheme which operated in the final quarter of the year.

The voluntary severance scheme costs have reduced the surplus but are considered by the College as appropriate measures in the long term financial sustainability of the College allowing future cost reductions to be achieved.

During 2021/22 the College had to make difficult decisions regarding the provision of their nurse and catering services. Catering services were reduced and the nurseries were closed in order to realise necessary cost saving efficiencies to allow the College to remain financially sustainable. From our Board minute review we have noted the College carried out sufficient discussions and consideration of these decisions and the correct process to follow before proceeding with the necessary action.

Impact of depreciation budget

The Statement of Comprehensive Income and Expenditure is prepared under the FE/HE SORP, which does not permit the inclusion of the non-cash budget for depreciation. Colleges may show a deficit equivalent to net depreciation as a result of having to meet Government accounting rules.

	2021/22 £'000	2020/21 £'000
Operating Deficit for the year (FE/HE SORP basis)	(6,294)	(5,738)
Add:		
Depreciation budget for government funded assets (net of deferred capital grant) for the academic year	3,209	2,732
Operating deficit on Central Government accounting basis	(3,085)	(3,006)

The adjusted operating position table on page 21 would have shown an operational deficit had it not been for the late introduction by the SFC of a 2% credit tolerance. The deficit is considered to be as a result of an increase in costs due to return to on campus teaching, rising staff costs due to national wage and national insurance raises, and the cost of the voluntary severance scheme put in place by the College during the year.

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements in place at the College. Our work consisted of a review of budget monitoring reports and committee papers along with attendance at committees. Overall, we consider that the Board of Management obtains regular and timely financial information that reflects the actual financial position.

We note that budget reports are produced on a timely basis and considered by the appropriate committee throughout the year. Budget reports and forecasts were appropriately updated based on prudent assumptions, there was considered to be no unreasonable movements throughout the quarterly forecasts and budgets considering the ongoing impact of the recovery from the Covid-19 pandemic.

The Corporate Development Committee considers the management accounting pack regularly, reporting to the Board of Management. Minutes of the meeting document the level of challenge made by the Committee to the financial performance.

In response to the late announcement by the SFC on the ability of Colleges to use a 2% credit tolerance, the Finance Team, following consultation with the Principal and the Chair updated the adjusted operating position and wrote to the SFC asking to confirm the revised position. The SFC confirmed the revised position as being

appropriate and therefore the Finance Team processed the adjustment. The Corporate Development Committee will be informed of this update at the next planned meeting and then the Board will be informed at the next meeting, due to take place in December. Given the late notice of the credit tolerance announcement, we consider appropriate governance was applied to the financial reporting process.

Internal controls

As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have also considered the work of internal audit, from individual reviews of financial systems and their annual audit opinion on the control framework in place at the College.

We conclude that the processes and controls in place at the College are operating effectively. The College has all the expected control, risk, performance and financial arrangements in place. There are a series of regularity documents including standing orders, articles of governance, code of conduct and financial regulation intended to ensure regularity of transactions.

Prevention and detection of fraud and irregularity

Management and the Audit Committee, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We have a responsibility to review the College's arrangements for the prevention and detection of fraud. Our audit work was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the arrangement in place to be satisfactory and identified no material misstatements resulting from fraud or irregularity.

Financial Sustainability

Dimension

Financial sustainability extends the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the College's arrangements for financial planning and affordable and sustainable service delivery

Our conclusion

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

Identified significant risks to our wider scope work

As part of our planning procedures we considered whether there were significant risks that would impact on any of the four areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope and how we addressed the risk below.

Financial sustainability

Description of the risk

The College has identified that significant cost reductions are required over the next 5 years to deliver a balanced budget and there is a need for significant capital investment to bring the current estate up to sound, operationally safe, and exhibiting only minor deterioration (condition B) standards.

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

How we addressed the risk

We have addressed the risk by:

- Reviewing the forecast financial position in the five-year financial plans submitted to SFC;
 - Reviewing the financial and resource implications of any voluntary severance scheme run by the College;
 - Considering alternative plans being considered by the College to ensure a balanced budget is achieved;
-

-
- Reviewing the financial reporting arrangements in place at the College; and
 - Reviewing progress made with plans to replace the Greenock and Paisley campuses, alongside the impact on finance performance
-

Wider scope conclusion

The College and its Board of Management have a clear view of the financial challenges and long-term risks faced. The College has identified that it may need to make £2.8m cost efficiencies over the next year to achieve a break even adjusted operating position.

The College remains in dialogue with the SFC regarding the business cases it has submitted to progress plans for the replacement of the Greenock and Paisley campuses. There is an ongoing significant risk that without further revenue funding to support estates maintenance or capital funding to support the replacement, the operating environment of the College will continue to deteriorate which in the future could disrupt the College's ability to provide education services adequately. Discussions remain ongoing with the SFC with no indication of any decision provided as yet.

Despite the challenges faced by the College in the year, such as credit shortfalls and voluntary severance costs, the College has managed to achieve an adjusted operating surplus, which is one of the main indicators the SFC and Audit Scotland consider in assessing whether a College is financially sustainable.

Financial planning

This year, the College has produced a five-year Financial Forecast Return (FFR) to the SFC in line with current SFC guidance.

	Budget 2022/23 £'000	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000	Forecast 2026/27 £'000
Adjusted operating surplus / (deficit)	(1,136)	0	0	0	0

The FFR approved by the Board in June 2022 projected a deficit of £1,136k for the 2022/23 year. This is primarily based on the College consideration that credit targets not met in 2021/22 are unlikely to be met in 2022/23. This position also includes the potential settlement of 2022/23 staff pay awards at a level greater than Scottish Government Public Sector Pay Policy levels. The College predict that these factors will lead to a £1,136k deficit.

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

	Budget 2022/23 £'000	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000	Forecast 2026/27 £'000
Total income	65,195	60,806	60,863	60,926	60,995
Staff costs	51,305	45,238	45,873	45,442	44,941
Total other expenditure	17,965	18,507	17,884	18,555	19,265
Operating surplus/(deficit) before other gains and losses	(4,075)	(2,939)	(2,894)	(3,071)	(3,211)
Total depreciation	3,256	3,256	3,256	3,256	3,256
Loan repayments	(317)	(317)	(362)	(185)	(45)
Adjusted operating result	(1,136)	0	0	0	0

The College originally forecast a small adjusted operating surplus in each of the next 5 years. This was then revised to reflect the anticipated shortfall of credits due to lower than expected August 2022 enrolment figures and expected staff pay award costs, resulting in a budgeted deficit of £1m in 2022/23. The College has assigned actions to address this funding shortfall in 2022/23 and the outcomes will be reported to the Board of Management during the year.

The above forecasts include staff cost reductions of £6.6m across the 5 years. There is not only a required focus on the savings targets being met, but the College also assumes in its forecast that income will increase each year after 2023/24. The

reason for the significant drop in income between 2022/23 and 2023/24 is due to 2022/23 including the settlement of the national pay bargaining, expected to be released in March 2023. This is a one-off event therefore income will drop back down to normal levels in the years afterward. This is justified by the SFC announcing increased funding allocations for 2022/23 and the SFC intention to maintain credit funding levels after ESF ended as per the SFC Financial Forecast Guidance.

There is a sector-wide financial risk relating to uncertainties resulting from the continued recovery from the global pandemic, and the impact that has on individuals and whether they choose to attend College. It is highly likely that the College will require to make further cost reductions or require to obtain additional income to achieve financial sustainability going forward.

We recognise that the College has consistently made cost reductions over the last five years through a variety of measures including voluntary severance schemes and the closure of nursery provision in 2021/22. However, even further cost reductions or additional funding will be required in the coming years to achieve financial sustainability. As such, we still consider there to be a risk that the College is not financially sustainable.

Asset management and estates strategy

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

The College submitted Outline Business Cases (OBC) for the replacement of the Paisley and Greenock campuses to the SFC in October 2016 and October 2017 respectively. The estimated investment required to replace both campuses at that point was approximately £200m. Since the OBC submission the College has continued to work with the SFC to refine and update these documents. During 2021/22, the College submitted an updated business case for the Greenock campus, reflecting post pandemic space requirements and reflecting a level of hybrid teaching. The College are in continued discussions with the SFC regarding next steps with an answer expected imminently on the submitted OBC.

National estates survey

The 2017 survey by Gardiner & Theobald estimated that the College required an investment of £61.0m in the next 10 years. Overall, across Scotland the total backlog costs were estimated at £363m. The Scottish Funding Council has been working with the Scottish Government and Scottish Futures Trust to produce a framework for college sector estate development to manage competing demands for estate development.

The College undertook a further estate condition survey in 2019 which showed an estimate of £82.3m would be required over the next 10 years to bring the condition of the estate to category B (sound, operationally safe, and exhibiting only minor deterioration). The survey estimated that over the next 5 years £42.4m would be required to bring the College campuses to Category B status. This is made up of £16.6m and £21.3m at the Paisley and Greenock campuses, with a further £4.5m at the Clydebank campus. A further £39.9m was recognised as being required across the three campuses in the following 5 years.

The College has continued to receive variable levels of both estate lifecycle and high priority maintenance funding, which are a very small percentage of the recognised financial need:

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Lifecycle maintenance funding	1,193	1,121	1,178
High priority maintenance funding	2,574	2,572	2,729
Total estate maintenance funding	3,767	3,693	3,907

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

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

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

Governance and Transparency

Dimension

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

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

Our conclusion

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

Governance arrangements

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

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

At 31 July 2022, the Board consisted of 18 members, 6 female (including the Principal) and 12 male. In the current year the Board has not maintained a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Act 2018.

The College do aim to have equality and diversity in their board representation, and this is considered actively at each round of recruitment alongside the strengths and skills required for the role to ensure the Board has sufficiently qualified and skilled members. It can be difficult to ensure an equal gender split of members depending on the applications for the vacancies the Board receive at the time of vacancy.

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

Appropriate College officers attend committees and present reports as required.

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

Governance Statement

As part of our audit we have read the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework

The governance statement confirms the College's compliance with the 2016 Code of Good Governance for Scotland's Colleges.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. We also consider that the governance statement has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by Wylie & Bisset.

Internal audit have attended Audit Committees throughout the year and have produced 7 reports to support the Annual Internal Audit Opinion. The opinion given by internal audit was: *'West College Scotland did have adequate and effective risk management, control and governance processes to manage the achievement of the College's objectives at the time of our audit work. In our opinion, the College has proper arrangements to promote and secure value for money. We have only been able to provide a 'Weak' level of assurance from the IT Administration and the Sustainability and Carbon Management reviews'*.

Transparency

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

Value for Money

Dimension

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

Our conclusion

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

Performance management

The College failed to deliver its Regional Outcome Agreement (ROA) target credits due to poorer than expected student enrolment in August 2021. A financial deficit was incurred in the year, highlighting the continued financial difficulties the College faces. There is close monitoring of the delivery of the ROA and financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget to be appropriately managed. Through this management of the 2021/22 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected given the circumstances of the year.

Regularity

As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements. Regular expenditure and income is that which has been incurred / obtained in line with guidance issued by the Scottish Ministers and the terms and conditions of funding of the Scottish Funding Council.

The College has arrangements to monitor the requirements of the Scottish Funding Council, Audit Scotland and other regulatory or advisory bodies to ensure it complies with the terms and conditions of funding including regular reporting of financial and operational performance to the Board of Management and its committees.

Our review found an effective control environment exists over regularity of expenditure and receipts. No instances of non-compliance with Scottish Funding Council terms and conditions were noted.

6. Our Fee

Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Audit Strategy Memorandum, presented to the Audit Committee on date. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	Proposed fee 2021/22	Final fee 2021/22
Auditor remuneration	30,960	30,960
Pooled costs	1,600	1,600
Contribution to Audit Scotland costs	1,440	1,440
Total Fee	34,000	34,000

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

Appendix A

Independence

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

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