BOARD OF MANAGEMENT ACTION TRACKER

COMMITTEE: **Audit Committee** *(Paper 1a)*

DATE RAISED	ACTION No	ACTION	DUE DATE	OWNER	STATUS*	COMMENTS
19.09.17	1	Consideration of cross representation between Audit Committee and BRIC	June 2018	A Walker	Completed	Two BRIC members are also members of Audit Committee
05.12.17	2	Raise with SFC the Committee's concerns over the SFC instructed rebadging of Net Depreciation in the 2016/17 Financial Statements as "Cash Budget for Government Directed Priorities"	March 2018	A Walker	Completed	
20.03.18	3	Progress report on the on the work being undertaken by the College in response to the recommendations contained in the internal audit report on Business Continuity Planning	September 2018	M Breen	Completed	
20.03.18	4	The Committee to monitor and receive progress reports on the cascading of operational risk registers down through the management structure of the College	September 2018	M Breen	Completed	

DATE RAISED	ACTION No	ACTION	DUE DATE	OWNER	STATUS*	COMMENTS
18.09.18	5	The receipt, consideration and approval of the Ayrshire College Business Continuity Plan to be an annual requirement of Committee business at the first meeting of each session.	September 2019	Responsible EMT Member	Completed for 2018-19. Rolling thereafter	This will be a requirement to be completed during each new academic year going forward.
18.09.18	6	Discuss with Chair of LTC ownership of the Student Curriculum/Experience Review	June 2019	Chair of Audit	Completed	
18.09.18	7	Risk Register: BOM4 – Include PFI mitigation actions as included in the Financial Sustainability Plan. BRIC 7 – Be enhanced to 20 as recommended by BRIC	September 2018	M Breen	Completed	
27.11.18	8	Risk Register: BRIC7 Chair of Audit to discuss The proposed decrease in risk level with the Chair of BRIC following agreement of a timeline for the appointment of a new Principal and a new Vice Principal	December 2018	Chair of Audit	Completed	

DATE RAISED	ACTION No	ACTION	DUE DATE	OWNER	STATUS*	COMMENTS
19.03.19	9	The College Management to discuss with BDO Recommendation ref 2, of the IT Internal Audit Report and bring a fuller explanation to the next meeting of the Committee as to why it feels this recommendation should not be accepted.	June 2019	M Breen	Completed	
19.03.19	10	Discuss with BDO bringing forward the Income Generation Internal Audit, with the addition of the Flexible Workforce Development fund, and the use of additional days as appropriate.	June 2019	M Breen/J Thomson	Completed	
11.06.19	11	Bring to the Audit Committee a brief summary of any GDPR issues that arise	Appropriate Meeting	M Breen	In Progress	This item will be reported to the Committee as and when there is anything to report
11.06.19	12	A training/refresher session on Risk Appetite, using FFR as the exemplar, be conducted at the scheduled November 7 2019 Board Members Induction Day.	November 2019	J Thomson/B Ferguson	In Progress	

*** *Not Started / In Progress / Completed***

Audit Committee Terms of Reference (Paper 2)

Introduction

The Audit Committee is identified as a Committee of the Ayrshire College Board of Management. The approved Terms of Reference and information on the composition and frequency of the Committee will be considered as an integral part of the College Standing Orders.

The Committee will be known as the Audit Committee of the Board and will be a Standing Committee of the Board of Management. For the purposes of the Terms of Reference, unless otherwise indicated, 'the Board' means the Ayrshire College Board of Management.

Remit

The Committee will be responsible for overseeing all matters related to the external and internal audit of the College and provide assurance to the Board that the requirements of the Code of Audit Practice published by Audit Scotland are observed along with all other relevant regulations and legislation. The Committee will have a particular engagement with internal and external audit and financial reporting issues.

Committee Membership

The Committee membership shall consist of a minimum of four non-executive Board members who shall be independent and objective in terms of their Audit Committee function and, in line with good practice, will not include either the Principal or the Chair of the Board. At least one member of the Audit Committee must have recent relevant financial or audit experience.

The Committee Chair will be appointed by the Board.

Committee membership will be reviewed annually by the Board, taking account of the remaining terms of office of the Committee members.

Quorum

50% of the total membership of the Committee will constitute a quorum.

Attendance

The Committee may co-opt additional individuals as appropriate. Details of proposed co-opted individuals will be notified to the Chair of the Board in advance. The role, remit and term of membership of co-opted individuals will be determined by the Committee.

External and Internal Auditors shall normally attend meetings and will be invited to all meetings.

The Vice Principal Finance and College Systems, the Director of Finance and Student Funding and, where appropriate, other staff should attend meetings of the Committee to provide information and reports as appropriate.

Meetings

The Committee shall normally meet on a quarterly basis, but shall meet on a minimum of three occasions per annum.

Any member of the Committee may convene additional meetings of the Committee as and when required by giving a minimum of ten working days' notice to the Secretary to the Board of Management to call a meeting.

The Committee Chair will instruct the Secretary to the Board of Management to call meetings of the Committee. The agenda and supporting papers will be sent to members at least five working days before the day of the meeting.

The Committee may meet privately without any non-members (with the exception of the secretary) for all or part of a meeting if they so decide.

The Committee will normally meet with the External and Internal auditors annually without any members of the Executive Management Team being present.

Duties

- To agree Strategies within the Committees overall remit subject to Board of Management Approval.

- Reviewing and advising the Board of Management on the effectiveness of the College's financial and other internal control systems.

- Reviewing and advising the Board of Management on corporate governance requirements.

- Appointing the College's Internal Auditors and agreeing on the terms of reference for an audit service.

- Reviewing the scope and effectiveness of the work of the internal and external auditor using appropriate performance indicators.

- Considering issues raised in audit reports, annual management letter and reporting to the Board of Management on action required.

- Considering the College's annual financial statements and external auditor's report prior to submission to the Board of Management by the Finance Committee. Recommending to the Board the adoption of the audited Annual Accounts.

- Agreeing an internal and external audit plan.

- Advising the Board of Management on internal and external value for money reviews which secure the effective use of College resources.

- Preparing an Annual Report to the Board of Management on the work of the Audit Committee which will then be submitted to the Scottish Funding Council.

- Reviewing reported cases of impropriety to establish whether they have been appropriately handled.

- Agreeing the fees of Internal and External Auditors.

- Ensuring the system of risk management established by Ayrshire College remains fit for purpose and is being appropriately maintained.

- At each meeting receive and consider the rolling Ayrshire College Risk Register and comment accordingly to the Board of Management.

- The consideration and approval of the Ayrshire College Business Continuity Plan at the first meeting of each session.

Authority

The Committee is authorised to investigate any matters which fall within its Terms of Reference.

The Committee is authorised to seek and obtain any information it requires from any Senior Manager or Employee of the College, its Advisors or Member of the Board of Management whilst taking account of policy and legal rights and responsibilities.

Reporting Arrangements

At the end of each meeting, the Committee will decide on the business of the meeting that may be fully published on the College website. Normally it would be expected that complete minutes and papers will be published: except where the exclusions listed in paragraph 2.8 of these Standing Orders apply.

Minutes will be kept of the proceedings of the Committee by the Board Secretary. These will be circulated, in draft form normally within ten working days to the Executive Management Team representative for checking and then to the Chair of the Committee for consideration. It is expected that minutes will be checked timeously and any amendments advised to the Secretary to the Board of Management.

The Chair of the Committee shall report on the work and recommendations of the Committee and submit Committee minutes to the Board meeting for information.

Audit Committee Work Plan 2019-20

September	December	March	June
Terms of Reference & 2019-20 Work Plan	2018-19 Financial Statements to July 2019	2019-20 Internal Audit Reports	2019-20 Internal Audit Reports
2018-19 Internal Audit Reports	2018-19 Letter to SAA Covering Internal Audit of Discretionary Funds Return	Internal Audit Rolling Action Plan at February 2020	External Audit Strategy Review and Plan for 12 Months Ending July 2020
Corporate Risk Register 2019-20 (V1)	2018-19 Credit Data Return Internal Audit Report	Corporate Risk Register 2019-20 (V3)	Internal Audit Rolling Action Plan at May 2019
Internal Audit Rolling Action Plan at September 2019	2018-19 Audit Committee Chair's Draft Annual Report		Corporate Risk Register 2019/20 (V4)
2019-20 September Internal Audit Progress Report	2019-20 November Internal Audit Progress Report		Audit Scotland Annual Report on the Performance of Scotland's Colleges
External Audit Progress Report	Internal Audit Rolling Action Plan at November 2019		
	Corporate Risk Register 2019-20 (V2)		
	2018-19 Internal Audit Reports		
	Business Continuity Plan 2019-20		

(Paper 3)

AYRSHIRE COLLEGE

INTERNAL AUDIT PROGRESS REPORT 2018-19

September 2019

CONTENTS

EXECUTIVE SUMMARY

Introduction

The purpose of this report is to ***advise*** the Audit Committee of the progress of the Internal Audit Plan for 2018-19. This paper together with progress and assignment updates are discussed with management and the Audit Committee throughout the year. These reports will form the basis of information to support our Annual Internal Audit Report for 2018-19.

Internal Audit Plan 2018-19

Since the last Audit Committee meeting, the following internal audit reports have been finalised, and will be presented to the November 2019 Audit Committee:

- Application, recruitment, induction & enrolment of students
- Follow Up

Conclusion

The Audit Committee is asked to ***note*** this report.

WORK COMPLETED

Reports Issued	Overall Report Conclusions - see appendix I				
	▲	■	●	Design	Operational Effectiveness
Risk Management	0	0	1	Substantial	Substantial
Financial Controls	0	0	0	Substantial	Substantial
IT Security	0	1	5	Moderate	Moderate
SFC Return	0	0	0	Substantial	Substantial
Estates & Infrastructure	1	4	1	Limited	Limited

PERFORMANCE AGAINST OPERATIONAL PLAN

Visit	Date of visit	Proposed Audit	Planned Days	Actual Days	Status
1	October 2018	Risk Management	5	5	Completed
2	January 2019	Financial Controls - financial planning and longer term forecasting	5	5	Completed
3	February 2019	Estates & Infrastructure	5	5	Completed
4	April 2019	SFC Returns	5	5	Completed
5	July 2019	Application, recruitment, induction & enrolment of students	5	5	Completed
6	November 2018	IT Security	7	7	Completed
7	June 2019	Follow Up	3	3	Completed
8	N/A	Commercial Income Generating Programmes	5	-	This has been re-scheduled for 2019 /20 audit plan

AUDIT PERFORMANCE

AUDIT	COMPLETION OF FIELDWORK	DRAFT REPORT	FINAL MANAGEMENT RESPONSES	FINAL REPORT
Risk Management	26 October 2018	12 November 2018	27 November 2018	30 November 2018
Financial Controls	1 February 2019	8 February 2019	13 February 2019	13 February 2019
IT Security	11 December 2018	21 December 2018	22 January 2019	23 January 2019
Estates & Infrastructure	1 March 2019	18 March 2019	9 April 2019	9 April 2019
SFC Return	19 April 2019	3 May 2019	3 June 2019	3 June 2019
Application, recruitment, induction & enrolment of students	26 June 2019	13 August 2019	27 August 2019	27 August 2019
Follow Up	10 June 2019	14 June 2019	20 June 2019	20 June 2019

On average:

- Reports were issued in draft within 14 working days of completion of our fieldwork and a debrief meeting with management.
- Final reports were issued within 1 working day of management responses being received

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Reasonable	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

www.bdo.co.uk

Paper 4

Audit progress report

Ayrshire College

September 2019

MAZARS

CONTENTS

1. SUMMARY

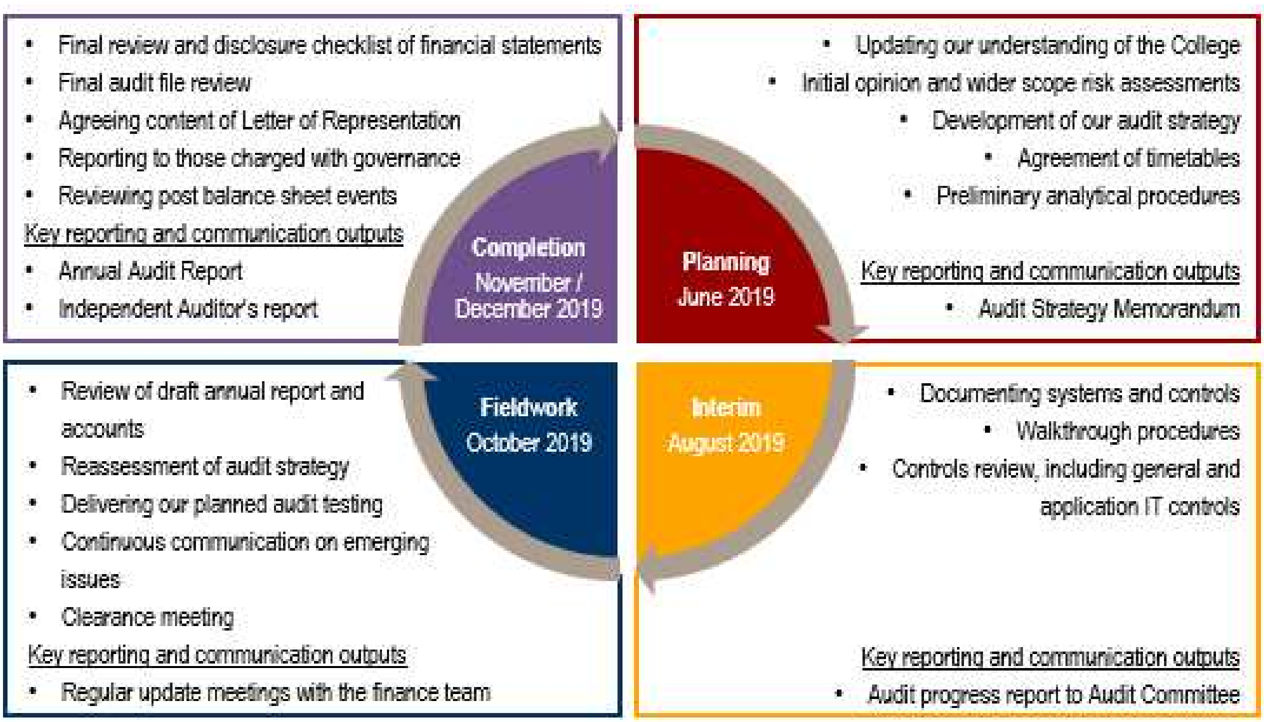
Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Our key audit stages are summarised in the diagram shown below. Overall work is on track and there are no significant issues arising.

Details of work completed and on-going are shown overleaf.



National publications and other updates

This section of the report sets out summaries from national publications and other updates which may be of interest to Members.

2. AUDIT PROGRESS

Audit progress

Since the issue of our Audit Strategy Memorandum to this Committee in June 2019 we have:

- documented key controls and processes on material transaction streams in the accounts and performed walkthrough testing in line with our audit strategy;
- attended an FE sector update meeting with Audit Scotland;
- completed a questionnaire for Audit Scotland on the College's progress with and general arrangements in place for the National Fraud Initiative;
- developed a draft Accounts final visit project plan setting out the key dates when we plan to undertake our work and the likely documents, working papers and information we will need to review; and
- continued to update our risk assessment for our Wider Scope work conclusion, including review of agendas and minutes for relevant meetings and consideration of reports by external regulators.

Our audit work is on track, and we have no matters to raise with the Committee at this stage of our audit. There are no changes to the risks previously reported in our Audit Strategy Memorandum.

The final audit fieldwork is due to begin on 21 October 2019. We will report to the Audit Committee on 26 November 2019 with our annual audit report and draft opinion on the financial statements. The accounts are due to be approved by Ayrshire College Board on 12 December 2019.

3. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication
1.	Scotland's Colleges 2019, Audit Scotland June 2019
2.	Accounts direction for Scotland's colleges 2018-19, Scottish Funding Council, July 2019
3.	Good practice note on improving the quality of College annual report and accounts (Governance Statements) – Audit Scotland, May 2019
4.	Audit of 2018/19 annual report and accounts (colleges): Technical guidance note 2019/7(C), Audit Scotland, August 2019
5.	Fraud and irregularity update 2018/19, Audit Scotland, July 2019
6.	Quality of Public Audit in Scotland, Annual Report 2018/19, Audit Scotland, June 2019

1. Scotland's Colleges 2019, Audit Scotland, June 2019

Audit Scotland's annual review of the college sector found an increase in student numbers and an overall small improvement in the underlying financial position of the colleges, but highlighted that they face future financial challenges particularly in relation to staff costs and estate costs.

Financial health

The financial health of Scotland's Colleges has improved overall, with an underlying surplus of £3.1 million reported for 2017-18 compared with a surplus of £0.3 million in 2016-17. It is highlighted however, that the gap between income and expenditure across the sector is growing. The report states that the latest increases in Scottish Government revenue will cover the costs of harmonising staff terms and conditions, but that the cost of living increases and any unfunded element of increases in employers' pension will require to be covered by the Colleges. Availability of cash has reduced for most Colleges and the ability to draw on ALF income is decreasing as the balances held by ALFs reduce. It was noted that the underlying operating position as reported by the Colleges continues to be interpreted inconsistently.

The report highlights that Scottish Government capital funding is insufficient to address Colleges' maintenance requirements. For 2019-20 it is estimated that there will be approx. £21m available for backlog and lifecycle maintenance, but that actual costs could be in the region of £100m. A reduction in capital spending creates a risk that the cost of urgently needed backlog maintenance increases, which may impact on some Colleges' ability to deliver their core services in a safe environment. Significant investment in digital infrastructure is likely to be required in the coming years to keep up with the changing times, but has not been factored in to future spending requirements in all cases.

Potential implications of the UK's withdrawal from the EU remain unclear, but it is expected that impacts may be felt by students, staff and to funding. The SFC has allocated funding of around £13m to deliver the equivalent of European Social Fund activity in 2019-20.

Performance

Reviewing college performance, Audit Scotland found that the sector had exceeded both the Scottish Government's learning target with an increase of 1,000 FTE places, and the SFC's national activity target by delivering 16,000 more credits than in 2016-17.
The report highlights that over the past 3 years, colleges have been providing fewer credits to students aged 16-24 and more to students aged 25 and over. This appears to be a continuing trend, and there also continues to be an increasing number of students under 16 years old.

Gender imbalances continues to be a concern for certain subjects such as engineering, transport, construction, health and social work. Progress in this area is difficult and a concerted effort from schools, Colleges and wider society will be required to meet the SFC aim of a gender balance of no more than 75:25 % by 2030. It was also highlighted that most College boards have more men than women.

3. NATIONAL PUBLICATIONS - CONTINUED

1. Scotland's Colleges 2019, Audit Scotland, June 2019 (continued)

Colleges are widening access to students from a range of backgrounds, but did not meet the SFC target of delivering 17.4% of credits to students from the 10% most deprived areas, coming in at 16.5% for 2017-18.

Student attainment has remained relatively static, with the average attainment rate for full time further education improving in 2017-18, while it fell slightly for full-time higher education. Only 2 regions met their agreed attainment targets. In 2018-19, the SFC plans to improve its use of Outcome Agreements to agree more ambitious targets with College regions to deliver priorities. This will be very challenging for Colleges.

In terms of retention, fewer students overall completed their course in 2017-18, however a greater proportion of students who qualify are going on to positive destinations.

The SFC and Education Scotland have introduced a new quality assessment evaluation framework for Colleges, *How good is our College?*, which is based on a validated self-evaluation and is intended to enable Colleges to assess progress and develop an improvement plan. Individual College results were published for the first time in 2019, and this can help Colleges in progressing with improvements.

Recommendations were made in the report for the Scottish Government, the Scottish Funding Council and for colleges. Audit Scotland recommended that colleges and their boards should:
- agree the underlying operating position with the SFC before finalising their accounts;
- improve data collection and response rates for student satisfaction and publish results;
- use *How good is our college?* effectively to drive improved performance and enhance the quality of service provision;
- agree medium-term financial plans that set out the mitigating actions to ensure their college's financial sustainability; and
- submit agreed medium-term financial plans to the SFC along with financial forecast returns (FFRs).

https://www.audit-scotland.gov.uk/report/scotlands-colleges-2019

2. Accounts direction for Scotland's colleges 2018-19, Scottish Funding Council, July 2019

On 5 July 2019, the Scottish Funding Council issued its accounts direction for Scotland's colleges for the 2018-19 year, along with supporting guidance. There have been no significant changes in the accounting requirements for 2018-19, however there are a number of additional disclosure changes. There is a new SORP which takes into accounts the FRS 102 updates following the Triennial Review, however these impact periods beginning on or after 1 January 2019, so will impact the Colleges' 2019-20 accounts.

Changes include:

- inclusion of a description of the estates management strategies as part of the statement of the purpose and activities of the College in the Performance Report;
- additional guidance for the disclosure of the adjusted operating position (taking the SORP position and removing non-cash adjustments) to ensure consistency across the sector;
- instruction to submit the adjusted operating position calculation to SFC along with the draft accounts so this can be reviewed;
- The Trade Union Facility Time disclosures are to be made in reference to the year ended 31 March 2019, rather than to 31 July 2019;
- The Accountability Report is no longer required to be signed by the Chair of the Board;
- The tables in the staff costs note relating to the remuneration of the Principal and information on the higher paid staff should be cross-referred to the remuneration and staff report. Alternatively, the tables could be included in the remuneration and staff report and cross-referenced to the staff costs note, thereby avoiding duplication of the information; and
- SFC advises that the costs of harmonisation of National Bargaining support staff and middle management should be accounted for based on Colleges Scotland's February 2019 costings.

http://www.sfc.ac.uk/publications-statistics/guidance/2019/SFCGD142019.aspx

3. NATIONAL PUBLICATIONS - CONTINUED

3. Good practice note on improving the quality of College annual report and accounts (Governance Statements) – Audit Scotland, May 2019

Following two years of Colleges applying the Code of Good Governance for Scottish Colleges 2016, Professional Support within Audit Scotland felt it was an appropriate time to review Governance Statements to identify best practice which can be used to enhance their governance statements.

Professional Support identified the key characteristics of high quality governance statements:

1. **A single story** – the governance statement should**:**
    - tell a fair, balance and understandable story
    - be structured in a way that allows a coherent and clear narrative, whilst being brief, focussed and high level
    - explain the purpose of the statement

2. **What worries board members** – the governance statement should**:**
    - be sufficiently specific so that readers can understand why risks are important, and should describe what actions are being taken to mitigate key risks
    - include a clear assessment of whether governance arrangement are "fit for purpose"
    - disclose and explain any significant governance issues

3. **Cut the clutter** – the governance statement should:
    - include the necessary breadth of information in a concise way, ensuring that disclosures are relevant to the College
    - avoid excessive detail about a large number of matters
    - consider appropriate use of signposting to allow the user to access complementary information, and hyperlink to documents published online

4. **Clarity** – the governance statement should:
    - use plain language and avoid using jargon, or explain where it cannot be avoided
    - ensure standard wording is tailored to the circumstances of the College

5. **Summarise** – the governance statement should:
    - aggregate information at an appropriate level to highlight key messages
    - consider which information could be better presented using tables or more informative infographics
    - consider using case studies to add valuable insight

6. **Explain change** – the governance statement should:
    - provide a full explanation of the progress on implementing previous year action plans
    - highlight any changes in governance arrangements

The content and presentation of the governance statement should be considered and challenged annually by members of the Audit Committee.

https://www.audit-scotland.gov.uk/uploads/docs/um/gp_improving_quality_college_annual_report.pdf

3. NATIONAL PUBLICATIONS - CONTINUED

4. Audit of 2018/19 annual report and accounts (colleges): Technical guidance note 2019/7(C), Audit Scotland, August 2019

This publication aims to provide guidance on the risks of misstatements in the 2018-19 annual report and accounts.

Some of the key elements from the report centred around valuations of tangible fixed assets and provisions which rely on judgements and can therefore be subjective.

Another key judgement area is in relation to accounting for retirement benefits, and specifically the impact of the guaranteed minimum pension (GMP) and the McCloud judgement. For the GMP impact, it is expected that Colleges will recognise an additional liability where this has been provided by the actuaries in relation to the interim solution, relating to members reaching age before 6 April 2021. Due to the uncertainty surrounding the long-term solution for members reaching retirement age after 6 April 2021, it is expected that the impact of this would be disclosed as a contingent liability note. The McCloud judgement should be taken into account when actuaries are calculating pension liabilities at an employer level, which should then be recognised by Colleges. The proposed accounting for the McCloud judgement is likely to see the Current Service Cost and overall pension liability increase.

Other areas highlighted included non-identification of related parties and agency arrangements as any omissions may be significant. It was also noted that grants need to be carefully treated to ensure correct accounting is used, and furthermore that any donations to/grants from ALFs are properly presented.

https://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2019-7_colleges.pdf

5. Fraud and irregularity update 2018/19, Audit Scotland, July 2019

Audit Scotland prepared this report to share information on cases where internal control weaknesses in public bodies have led to fraud and irregularities. Their aim is to help prevent similar circumstances happening in the future.

During 2018-19, external auditors reported 17 cases of frauds and irregularities, valued at almost £674k.

The report highlighted the key categories of fraud identified:

1. Expenditure frauds - where an organisation has incurred additional expenditure because of fraud e.g. due to invalid suppliers, fictitious invoicing and redirection of payments intended for legitimate suppliers by changing bank details.
2. Income frauds – where a body's income has been misappropriated e.g. cask takings being re-directed or invalid refunds processed.
3. Payroll – relate to cases where an organisation's payroll has been misappropriated e.g. employees working elsewhere while claiming to be unfit, or diversion of salary payments.
4. Theft – theft of assets can be considered fraud if they are facilitated by poor security arrangements e.g. theft of equipment of stores.
5. Misuse of assets – where assets are used for personal gain e.g. the use of vehicles for personal gain

In most cases identified in the report by Audit Scotland, the fraud had occurred due to a weakness in controls – such as independently verifying changes to bank details. This highlights the importance of ensuing the control framework is operating as intended.

Several Colleges in 2018-19 were impacted by fraud and it is clear that vigilance is required on an ongoing basis.

https://www.audit-scotland.gov.uk/report/fraud-and-irregularity-update-201819

3. NATIONAL PUBLICATIONS - CONTINUED

6. Quality of Public Audit in Scotland, Annual Report 2018/19, Audit Scotland, June 2019

This report summarises the detailed assessment of audit quality carried out on audit work delivered by Audit Scotland and the appointed firms on behalf of the Auditor General for Scotland and the Accounts Commission in 2018/19. It finds that auditors have designed and implemented effective audit quality arrangements to assure the quality of their audit work. A number of independent external reviews of audit quality carried out for Audit Scotland by ICAS, across Audit Scotland and appointed firms, did not identify any concerns with audit opinions.

The report includes graphical representation of the results of the firm staff surveys on audit quality and training – these results show that high quality audits are a key priority for Mazars, with appropriate training being essential.

The report also highlights areas for further improvement which included the use of analytical procedures and application of the sampling methodology. It also notes the importance of audit work on the narrative statements in the annual accounts, which ties in with improvements required in the governance statement and performance reports.

Further information on the audit quality arrangements for Audit Scotland and the appointed firms (including Mazars) can be found on their respective Transparency Reports which are linked to Page 8 of the Annual Report (link below).

https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819

4. POSITION STATEMENT ON 2017-18 AUDIT

Planned output	Expected completion date	Final report issued to Audit Committee	Comments
2018-19 Audit Strategy Memorandum	By 11 June 2019	11 June 2019	~
Audit Committee Progress Report and Briefing	17 September 2019	17 September 2019	~
2018-19 Audit Completion Report, incorporating: • Opinion on the financial statements. • Conclusion on Wider Scope work	By 31 December 2019	TBC	~

5. CONTACT DETAILS

Please let us know if you would like further information on any items in this report.
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Ayrshire College (Paper 5)

Audit Committee

17 September 2019

Subject:	2019-20 Internal Audit Rolling Internal Audit Action Plan at 9 September 2019
Purpose:	To provide Members with an update on the Rolling Internal Audit Action Plan as at 9 September 2019
Recommendation:	The Audit Committee notes the content of this paper.

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1. Background

The rolling Internal Audit Action Plan was last presented to the Audit Committee at its meeting on 11 June 2019. The rolling action plan is updated on an exceptions basis for actions approved by the Audit Committee which are now beyond their agreed completion dates.

2. Current Situation

The Rolling Internal Audit Action Plan for 2019-20 onwards covers any audit recommendations made by our current internal auditors (BDO), once the audit reports and proposed management responses have been approved by the Audit Committee. The three year audit plan was approved by the Audit Committee on 18 June 2018.

Table 1 below lists all recommendations from the internal audits that are due to have been completed by 9 September 2019. Table 1 also shows if the recommendation has been actioned or is still remaining.

Table 1

Ref	Audit Year	Audit Area	Points Raised	Actioned in Period	Remaining Points
1	2018-19	Infrastructure Projects	4	0	4*
2	2018-19	IT Security	4	1	3
		Total	**8**	**1**	**7**

<u>1. Infrastructure Projects</u>
The four audit points due for completion from the Infrastructure Projects audit report all relate to the development of a documented project management framework and methodology. The framework and methodology were prepared by the College by the due date for completion. However, due to timelines for authorisation, the methodology and framework will require to be approved by the College's Senior Leadership Team at its meeting on 25 September 2019 and such are considered to be outstanding.

<u>2. IT Security</u>
The first of the four audit points due for completion relates to the documentation of guidance procedures and monthly security reviews. These have now been completed.

The second of the four audit points relates to the College having easy access to all back up evidence to verify the request for and the authorisation of alterations or the addition of users to the College's active directory. The College committed to addressing this recommendation as part of the implementation of the Sysaid service desk. The Sysaid service desk is being developed prior to roll-out, the recommendation will be completed as part of the service desk roll-out. This work is scheduled to commence during the October 2019 holiday week.

The third audit point due for completion was that the College would review options and the added value of procuring a mobile device management package. The new campus agreement gives the College access to Microsoft's mobile access package (Intune). The College is currently working to implement this package by November 2019.

The fourth of the four audit points relates to the completion of policies and training for staff relating to the ongoing use of USB devices. Training in the correct use of USB devices forms part of the ongoing annual traning undertaken by staff. The development of a revised USB policy forms part of the College's wider IT development work for 2019-20. The USB policy will be prepared by 31 October 2019.

3. Proposals

No further proposals are contained in this report.

4. Consultation

No formal consultation is required to be completed given the subject matter of this report.

5. Resource Implications

There are no resource implications to be noted in this paper.

6. Risks

An effective and challenging Internal Audit service is a key element in the management of risk within the College.

7. Equality Impact Assessment

An impact assessment is not applicable to this paper given the subject matter.

8. Conclusion

The Audit Committee notes the content of this paper.

Michael Breen
Vice Principal, Finance and Skills
9 September 2019

(James Thomson, Director of Finance and Student Funding)

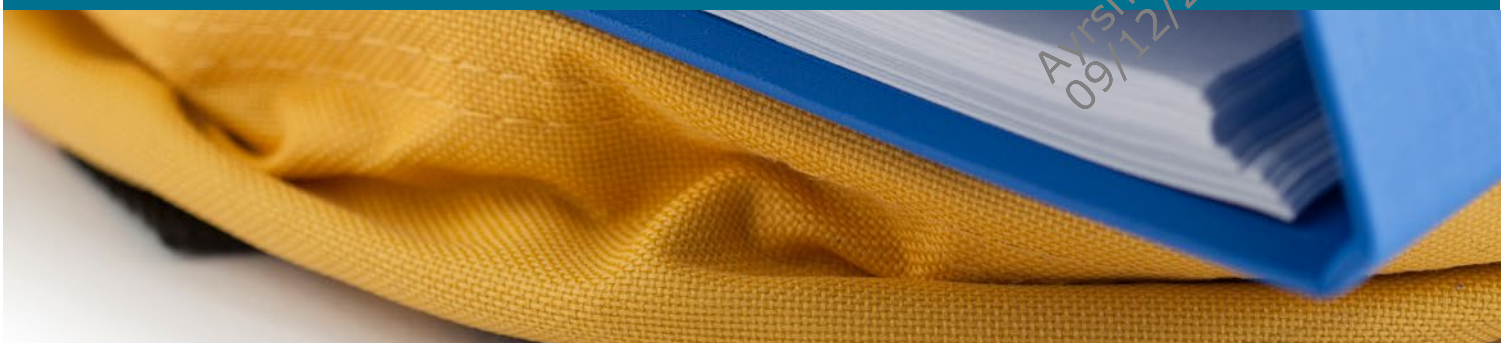
Publication
This paper will be published on the College website.

Paper 8

Scotland's colleges 2019

AUDITOR GENERAL

Prepared by Audit Scotland
June 2019



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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Audit team

The core audit team consisted of: Mark MacPherson, Mark McCabe, Yoshiko Gibo, Angus Brown and Sanya Ahmed, with support from other colleagues and under the direction of Angela Canning.

Links

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Key messages

1 The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges. The gap between colleges' income and expenditure is widening and this is forecast to continue, with 12 incorporated colleges forecasting recurring financial deficits by 2022-23.

2 Colleges face increasing cost pressures. The increase in Scottish Government revenue funding for 2019/20 covers only the additional costs of harmonising pay and conditions across the sector (excluding cost of living increases and increases in employers' pension contributions). Current Scottish Government capital funding falls short of the estimated costs of maintaining the college estate. The proportion of non-government income that colleges generate has reduced over time, and cash balances and money held by arm's-length foundations fell.

3 Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over. Colleges are widening access to disabled, ethnic minority and care-experienced students. After several years of increasing learning delivered to students from deprived areas, the proportion of learning delivered to this group fell slightly in 2017-18.

4 There is considerable variation across colleges in terms of student attainment and retention and those going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the Scottish Funding Council's (SFC) target of 75 per cent by 2020-21. Attainment gaps still exist for students from the most deprived areas, students with disabilities and for care-experienced students.

5 There is scope for the SFC to work with individual colleges and their boards to improve financial planning and to achieve greater transparency in the sector's financial position. The SFC can also be more transparent in how it reports colleges' performance against outcome agreements and student satisfaction data. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

Recommendations

Colleges should:

- agree their underlying financial position with the SFC prior to finalising their accounts (paragraph 5)
- improve data collection and response rates for student satisfaction and publish results (paragraphs 52–53)
- use *How good is our college?* effectively to drive improved performance and enhance the quality of service provision (paragraphs 55–57).

College boards and regional bodies should:

- agree medium-term financial plans that set out the mitigating actions to ensure their college's financial sustainability (paragraphs 17–19)
- submit agreed medium-term financial plans to the SFC along with financial forecast returns (FFRs) (paragraphs 17–19).

The SFC should:

- work with colleges to agree their underlying financial position prior to finalising their accounts (paragraph 5)
- require colleges to submit medium-term financial plans to support FFRs in assessing financial sustainability across the sector (paragraphs 17–19)
- publish college region performance against all outcome agreement measures (paragraph 44)
- publish good-quality student satisfaction data for every college (paragraph 52).

The SFC and Scottish Government should:

- agree and publish a medium-term capital investment strategy that sets out sector-wide priorities (paragraph 24)
- review whether targets for college provision and student outcomes, including for students from deprived areas, remain relevant and realistic, based on current performance trends (paragraph 31) (paragraphs 41–42)
- work with colleges to deliver the necessary improvements in performance to meet agreed outcome agreement targets (paragraph 45).

Part 1

Financial health

Key messages

1 The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges.

2 The Scottish Government has been providing colleges with real-terms increases in revenue funding since 2016/17. The most recent increase for 2019/20 covers only the additional cost of harmonising staff terms and conditions. Colleges also need to fund cost of living pay increases and any unfunded element of increases in employers' pension contributions. The proportion of non-government income, such as education contracts and other commercial income, has reduced. Colleges' ability to access other sources of funding, such as cash and arm's-length foundation (ALF) balances, is also reducing.

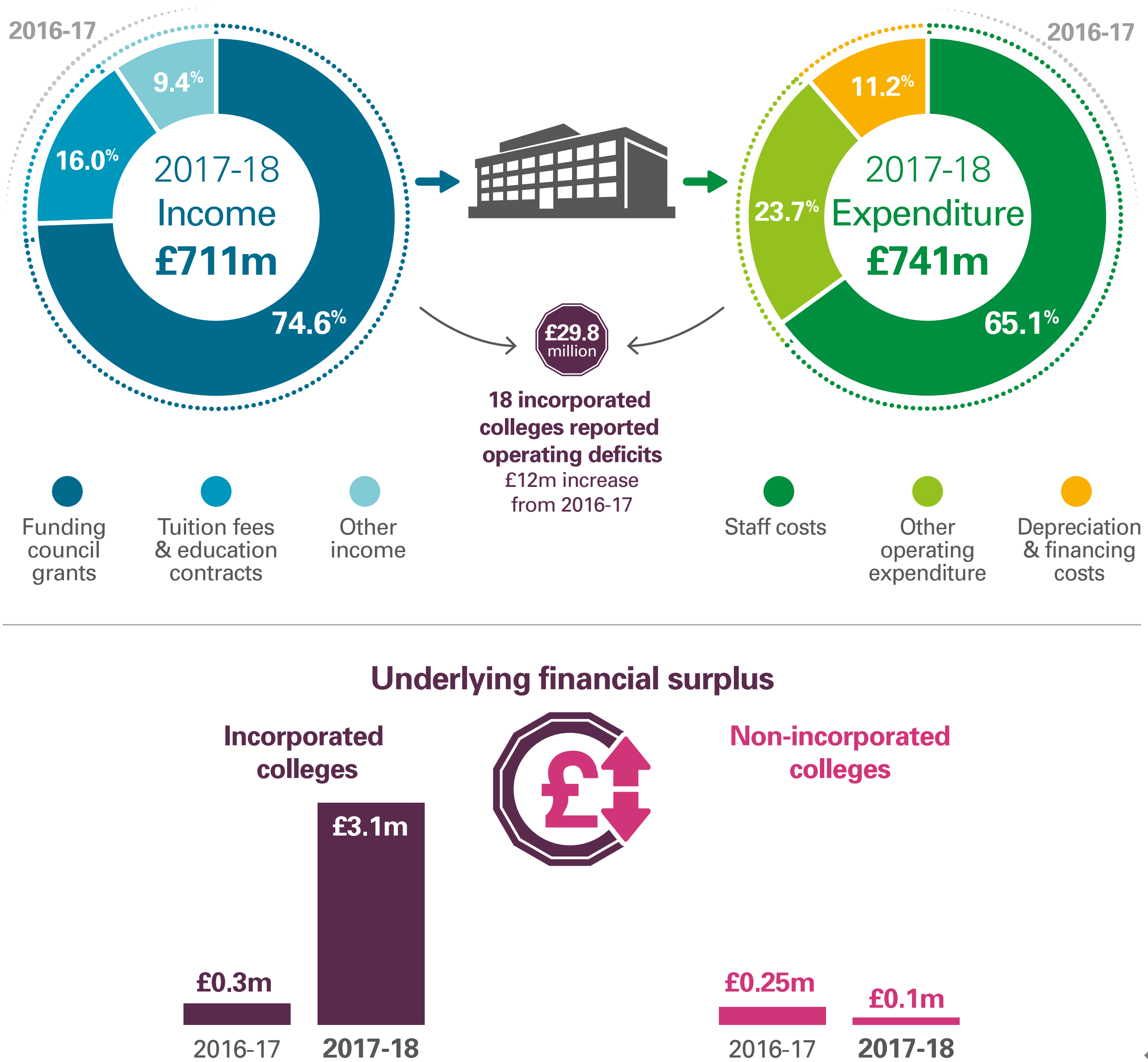
3 The gap between colleges' income and expenditure is widening. Twelve incorporated colleges were forecasting recurring financial deficits by 2022-23. At the time of their annual audits, ten of these were still to determine the specific actions needed to achieve financial sustainability.

4 Scottish Government capital funding falls short of what is needed to meet the estimated costs of maintaining the college estate. The Scottish Government is working with the Scottish Futures Trust and SFC to identify an appropriate revenue funding model for future investment in the college estate.

The underlying financial position for the college sector improved slightly in 2017-18, but the gap between income and expenditure is widening

1. Income remained unchanged across the sector in 2017-18 at £711 million. This represents a 1.9 per cent reduction in real terms from 2016-17. Scottish Government funding (provided through grants from the Scottish Funding Council) increased by 1.0 per cent in real terms. The proportion of income from other sources, such as education contracts and other commercial income, fell, meaning that colleges are increasingly dependent on Scottish Government funding (Exhibit 1, page 7).

Exhibit 1
Colleges have achieved an underlying surplus but the gap between income and expenditure is widening



Source: College accounts/SFC

2. Colleges' expenditure increased by £11.8 million (0.3 per cent in real terms) to £741 million in 2017-18, widening the gap between income and expenditure. As a result, the sector's operating deficit increased to £29.8 million. Eighteen of the 20 incorporated colleges reported operating deficits.

3. Adjusting the operating position for technical accounting factors that are beyond a college's immediate control, such as pensions and net depreciation, helps to provide a clearer picture of a college's short-term financial health. After such adjustments, incorporated colleges reported an underlying surplus of £3.1 million. While the underlying surplus is £2.8 million higher than in 2016-17, it represents a very small percentage of sector expenditure (0.4 per cent).

4. The overall underlying surplus for the six non-incorporated colleges is £0.1 million, equivalent to 0.4 per cent of their expenditure of £25.6 million and less than half the surplus in 2016-17 (£0.25 million).

5. In calculating and reporting their underlying operating positions, colleges continue to interpret the SFC's accounts direction inconsistently. While the differences between colleges' and the SFC's calculations are small overall (around £1.4 million), differences in individual college figures can be significant.

6. As public bodies, colleges are expected to operate with balanced budgets, but they are operating within an increasingly tight financial environment. The underlying positions of individual colleges are shown on (Exhibit 6, page 12), together with other indicators of financial health.

The latest increase in Scottish Government revenue funding is only enough to cover the costs of harmonising staff terms and conditions

7. Scottish Government revenue funding to the sector reduced in the period leading up to college reorganisation. Revenue funding for the sector has increased year-on-year since 2016/17 in real terms, mainly due to the Scottish Government funding the costs of harmonising staff terms and conditions. All of the increase in funding in 2019/20 is to fund these costs (Exhibit 2, page 9).

8. The SFC and Colleges Scotland have calculated the additional cost from harmonising staff terms and conditions at £50 million per annum from 2019-20. This includes £12 million allocated over the next two years to fund the harmonisation of terms and conditions for support staff. Colleges and the Educational Institute of Scotland (EIS) are in dispute over the cost of living pay claim for lecturers, over and above the harmonisation of pay, terms and conditions. This has resulted in several periods of industrial action and they have yet to reach agreement. The additional costs of the settlement will have further implications for colleges' costs and financial sustainability.

9. There is no additional Scottish Government revenue funding to cover other cost increases over this period, such as cost of living increases and increases in employer pension contributions. Scottish ministers have committed to pass on any specific UK funding made available to help meet planned increased employer pension contributions to the Scottish Teachers Superannuation Scheme. There still may be a significant element that remains unfunded for colleges (Exhibit 3, page 9).

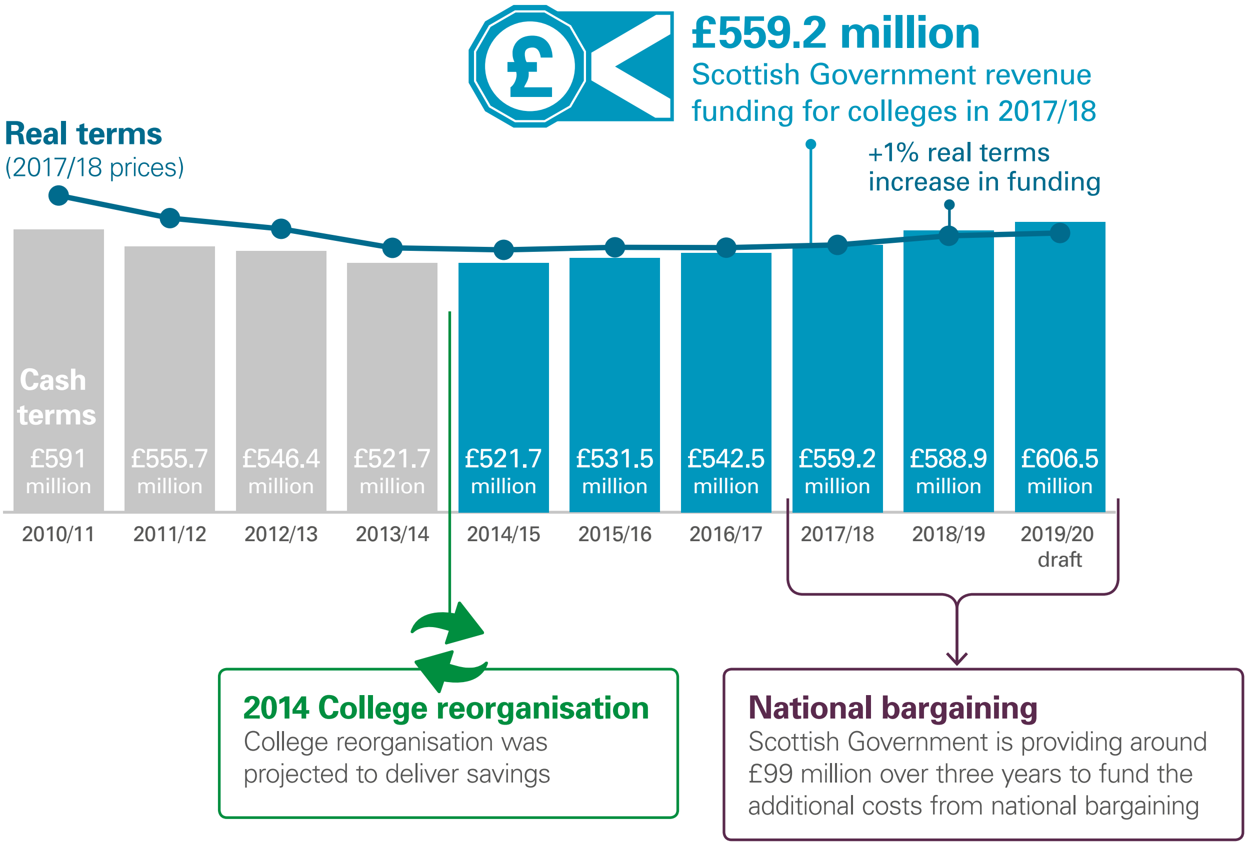
Staffing changes will affect SFC funding for harmonising terms and conditions

10. Total staffing numbers across the sector in 2017-18 remained unchanged, but the staffing profile across the sector has changed.[1] The number of non-teaching staff fell, while the number of teaching staff increased by the same proportion. The proportion of full-time permanent teaching staff with a recognised teaching qualification fell by one percentage point to 87.9 per cent.

11. Small changes at sector level mask noticeable changes within some colleges:

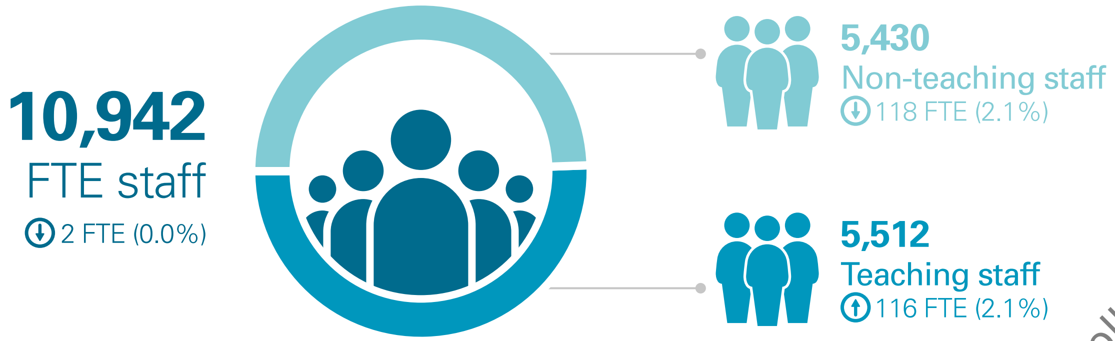
- Twelve incorporated colleges increased their teaching staff numbers. Of these, seven reduced their non-teaching staff.
- Seven incorporated colleges reduced teaching staff. Of these, three increased their non-teaching staff.
- Three incorporated colleges increased both teaching and non-teaching staff numbers, while four reduced both teaching and non-teaching staff.

Exhibit 2
Scottish Government revenue funding for colleges



Source: Scottish Government

Exhibit 3
Colleges staffing 2017-18



Note: Staffing numbers fluctuate depending at the point in the year they are recorded.

Source: College staffing returns to the SFC

12. Current funding allocations for harmonisation of terms and conditions are based on the number of staff in April 2018. The SFC will consider changes in staff numbers when determining future funding allocations.

Some sector-level financial health indicators improved in 2017-18 but the ability to draw on cash balances and ALF income has reduced for most colleges

13. Performance across the sector varied against financial health indicators. The sector's access to cash reduced. Its current net asset/liabilities position improved (ie, the sector's ability to pay its debts), with a reduction in net liabilities. Net assets more than doubled in 2017-18, mainly due to factors outside colleges' direct control. (Exhibit 4).

Exhibit 4
College sector financial health indicators

	2016-17	2017-18	
Cash	£49.2m	£42.1m	Cash held by colleges fell by 16 per cent in 2017-18. Twelve colleges had a reduction in cash, totalling £12.5 million. Eight colleges increased cash balances by almost £5.9 million. Cash balances will fluctuate throughout the year and some cash will already be committed to planned expenditure.
Net assets	£230m	£484m	Comparing the value of the assets an organisation holds against its financial liabilities – its net asset or liabilities position – gives an indication of its financial health. Net assets increased by £254 million, more than doubling the £230 million we reported in 2016-17. But £240 million of the increase was as a result of favourable revaluations of pensions and buildings.
Net current assets (liabilities)	(£33.9m)	(£31.3m)	Current net assets/liabilities are an indication of colleges' ability to pay off current debts. Net liabilities across the sector have reduced. In only five colleges are current assets greater than current liabilities.

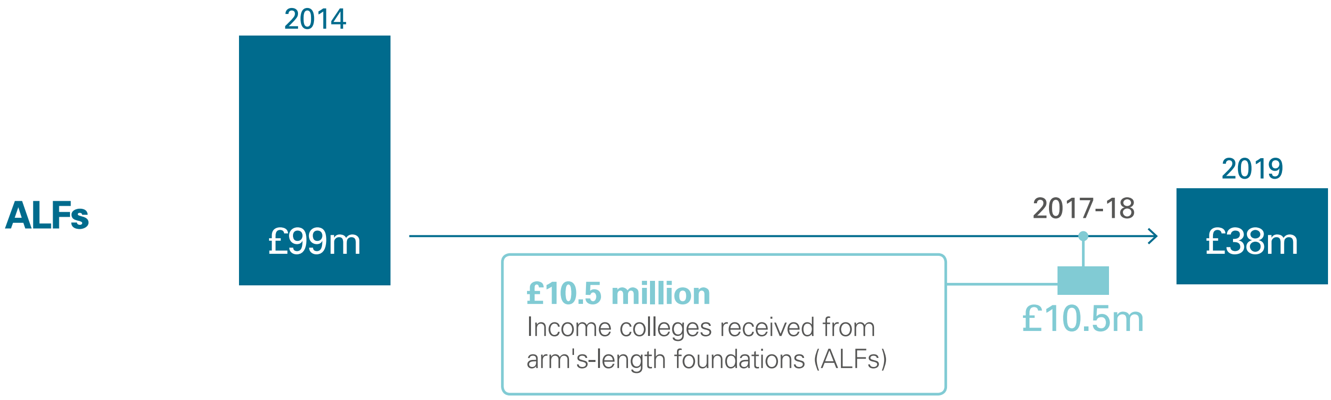
Source: Incorporated college 2017-18 accounts

Arm's-length foundations continue to be a reducing source of funds for colleges

14. Fifteen colleges received funding from arm's-length foundations (ALFs) in 2017-18. Around 80 per cent (£8.4 million) of the total sector income from ALFs was provided to Ayrshire, City of Glasgow, Glasgow Clyde and Glasgow Kelvin colleges. ALFs are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges can donate money into ALFs and can apply to ALFs for funding. Colleges have typically used income from ALFs to fund voluntary severance, capital works and investment in equipment and digital infrastructure.

15. Balances held by ALFs are reducing, with colleges planning to apply to use a further £6.25 million of ALF funding in 2018-19. ALF balances vary significantly, with some colleges having little or no scope to access any ALF income. For the remainder of colleges, the ability to apply for income from ALFs is becoming increasingly limited as balances reduce (Exhibit 5).

Exhibit 5
The balances of arm's-length foundations (ALFs) are reducing



Source: College accounts and ALF accounts or SFC – ALF balances not in college accounts

There is significant variation in the financial positions of individual colleges

16. There is significant variation in the financial indicators at individual college level. Taken on their own, each indicator is not a reliable measure of financial health. But, taken together, the indicators provide a broad indication of the extent to which each college is exposed to financial risk (Exhibit 6, page 12).

Exhibit 6
Financial indicators

Colleges	Underlying surplus/deficit	Operating surplus/deficit	Cash	Net assets	Net current assets/liabilities
Ayrshire College	-1.9%	-4.9%	3.3%	78.5%	-8.1%
Borders College	1.6%	-0.6%	19.9%	0.5%	10.5%
City of Glasgow College	0.7%	-2.5%	7.6%	29.7%	-4.8%
Dumfries and Galloway College	-0.5%	-8.1%	5.5%	82.7%	-6.7%
Dundee and Angus College	0.3%	-4.6%	2.7%	77.7%	-6.3%
Edinburgh College	0.6%	-3.4%	1.4%	111.5%	-8.7%
Fife College	0.2%	-6.6%	4.2%	61.3%	-3.1%
Forth Valley College	1.9%	-2.3%	15.6%	-14.0%	1.6%
Glasgow Clyde College	0.3%	-1.0%	5.3%	138.8%	-5.0%
Glasgow Kelvin College	1.5%	1.0%	4.6%	41.9%	-10.3%
Inverness College	1.4%	-5.2%	14.6%	-10.2%	-5.0%
Lews Castle College	1.9%	-5.1%	2.7%	48.0%	-4.9%
Moray College	1.2%	-3.5%	5.9%	90.6%	-5.9%
New College Lanarkshire	0.9%	-4.3%	1.8%	53.9%	-8.7%
North East Scotland College	-2.2%	-8.1%	4.9%	85.0%	5.5%
North Highland College	0.4%	-6.0%	3.0%	22.1%	2.3%
Perth College	0.0%	-5.7%	8.6%	103.0%	-8.4%
South Lanarkshire College	4.0%	0.2%	3.9%	56.0%	-5.5%
West College Scotland	0.0%	-4.7%	6.2%	101.9%	0.0%
West Lothian College	0.9%	-5.0%	3.9%	-16.6%	-4.4%
Scotland	0.4%	-4.0%	5.7%	65.2%	-4.2%

Quartile: Highest 1 2 3 4 Lowest

Notes:
1. Financial indicators are shown as of the proportion of each college's expenditure
2. For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: College accounts

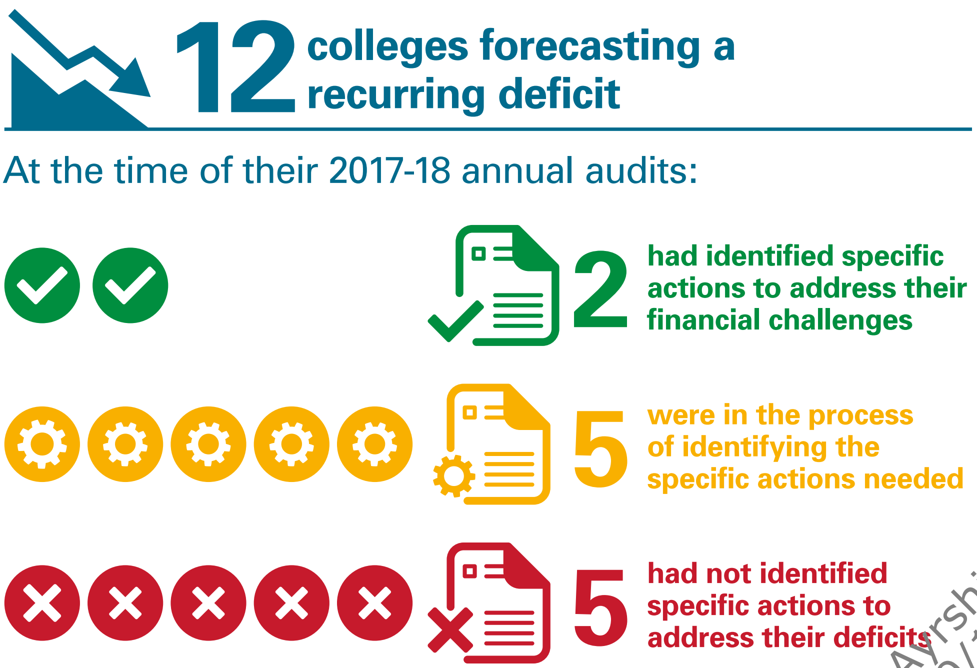
Twelve incorporated colleges are forecasting recurring deficits during the next five years

17. The SFC requires colleges to submit five-year financial forecast returns every year, and provides colleges with common financial planning assumptions to use when preparing their forecasts. Although colleges did apply the SFC's common assumptions, the SFC identified that colleges had not been consistent in compiling their most recent financial forecasts.[2] Colleges had broadly adopted one of two approaches: making forecasts that incorporated actions to address potential deficits; or forecasting their future financial position based on how they currently operate. Twelve colleges are forecasting recurring deficits during the next five years. Of the six non-incorporated colleges, only Orkney College is not projecting a recurring deficit during the next five years.

Only two of the 12 incorporated colleges forecasting recurring deficits had identified specific actions to address their financial challenges

18. At the time of their annual audit, only two of the 12 colleges forecasting a recurring deficit had identified the specific actions needed to address their financial challenges. A further five colleges were in the process of developing specific actions. Of the ten colleges still to determine agreed actions to address recurring deficits, six are forecasting a deficit position by the end of the next academic year: Inverness, North Highland and West Lothian colleges are forecasting deficits from 2018-19; and Forth Valley, Glasgow Clyde and Glasgow Kelvin colleges are forecasting deficits from 2019-20 (Exhibit 7).

Exhibit 7
Status of colleges' responses to forecasted recurring deficits



Source: SFC/colleges' external auditors

19. The SFC asked colleges that are projecting deficits to identify the actions needed to achieve financial sustainability. Additional financial pressures have emerged since colleges prepared their financial forecasts, including reduced capital funding and additional employer pension contributions. Unless funding increases, or colleges change how they operate, these are likely to result in future forecasts showing a worsening financial picture.

Three colleges face particular challenges to their financial sustainability

20. Auditors have highlighted that increasing operating deficits present challenges to financial sustainability in many colleges. Three colleges face particular challenges.

Ayrshire College

Ayrshire College reported an underlying deficit of £1 million in 2017-18 and was forecasting increasing deficits over the next five years, with a cumulative deficit of around £12 million (equivalent to 23 per cent of its current expenditure) by 2022-23. The college faces a number of cost pressures. It has identified annual PFI payments of £1.4 million until 2024-25 as its highest risk.

In February 2019, the SFC agreed the college's two-year financial sustainability plan. The SFC will provide the college with an additional £1.3 million in 2018-19 to fund a voluntary severance scheme and additional revenue funding support of £0.7 million in both 2019-20 and 2020-21.

The college anticipates its severance scheme will contribute to financial sustainability by generating savings of £1.66 million a year, reducing its projected cumulative deficit by 2022-23 to £5 million. Like other colleges, Ayrshire will need to continue to manage its costs, and to develop the necessary actions to balance its operating position from 2021-22 onwards.

New College Lanarkshire

Last year, the Auditor General for Scotland prepared a statutory report on the college, which highlighted the financial challenges facing the college and the potential impact on its longer-term financial sustainability. The college reported an underlying surplus of £0.6 million for 2017-18.

During the year, the SFC provided the college with £1.1 million for voluntary severance and a short-term cash advance of £1.3 million to address cash-flow difficulties.

The Lanarkshire Regional Board has agreed a five-year regional business plan with the SFC. This forecasts an underlying surplus for the college by 2019/20. The college anticipates receiving a further repayable advance of £2.6 million from the SFC in 2018-19, subject to maintaining progress and achieving the milestones in its plan.

To achieve financial sustainability, the college is reducing staffing costs. The SFC will provide £645,000 for the next voluntary severance scheme proposed in the plan. The college also intends to increase non-SFC income and to pursue opportunities for shared services with South Lanarkshire College.

North Highland College

The college reported a small underlying surplus of £0.1 million in 2017-18 but faces several key risks to its financial sustainability.

The college has previously required cash advances from its regional body, the University of the Highlands and Islands (UHI). It is forecasting a cumulative underlying deficit of £2.5 million by 2022-23 (equivalent to around 16 per cent of current costs) and a negative cash-flow position from 2019-20 onwards.

The college has loans of £1.3 million and in 2017-18 relied on waivers from its bank to avoid breaching loan covenants. At the time of the annual audit, the college did not have an agreed financial plan in place to achieve the required savings in both the short and longer term.

The auditor highlighted the need for more detailed interaction between the college and UHI as savings plans are developed. The college has since began a curriculum review, with a view to achieving savings for the 2019-20 budget. However, the college anticipates that it may require financial support from UHI, in the form of cash advances, for 2019-20.

21. Staff costs are the largest area of college expenditure and those colleges that have produced financial plans to address their underlying financial deficits are planning or currently implementing voluntary severance schemes as part of their plans.

Scottish Government capital funding is insufficient to address colleges' maintenance requirements

22. Capital funding is needed for the maintenance and improvement of buildings and investing in digital infrastructure. The Scottish Government provided £76.7 million of capital funding for the sector in 2018/19. Of this, £43.1 million related to existing capital commitments, including Forth Valley College's new campus project, £27 million was allocated for very high-priority backlog maintenance identified in the SFC's estates survey in 2017.[3] The SFC is monitoring whether funding for backlog maintenance has been spent as planned.

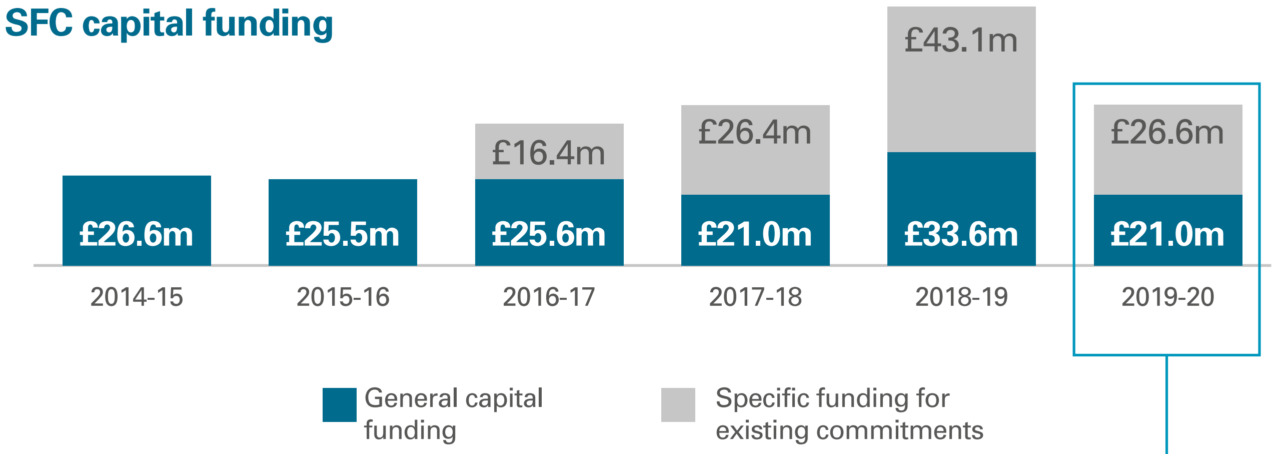
23. In 2019/20, capital funding for the sector has fallen to £47.6 million. Of this, £22.7 million is for Forth Valley College's new campus. After other specific capital commitments,[4] the SFC is allocating £21 million to address lifecycle and backlog maintenance needs.[5] Colleges and the SFC have calculated annual lifecycle maintenance costs to be around £22 million, over and above the £77 million high-priority backlog maintenance costs previously identified in the SFC's 2017 estates survey.

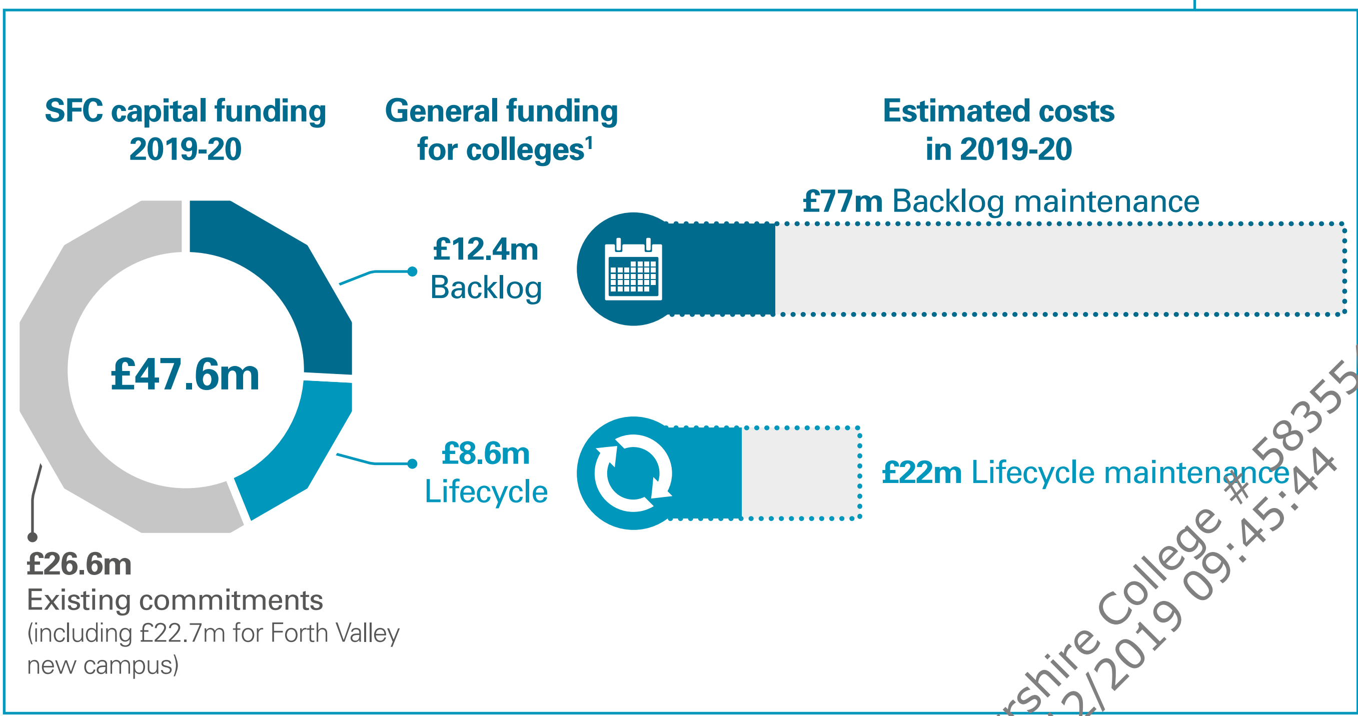
24. Reduced capital spending creates a risk that the cost of urgently needed backlog maintenance increases. This in turn poses a potential risk to some colleges' ability to continue to deliver their core services in a safe environment and to invest in new digital infrastructure to generate efficiencies and enhance the student experience. The Scottish Government is working with the Scottish Futures Trust and the SFC to identify an appropriate revenue funding model for future investment in the college estate (Exhibit 8, page 16).

Exhibit 8
Capital funding

£47.6 million
Capital funding in 2019-20

Typically, capital funding is used for the maintenance and improvement of buildings but is becoming increasingly important for investing in and developing digital infrastructure.





Note: 1. Excluding Forth Valley

Source: Scottish Government/SFC

The potential implications of the UK's withdrawal from the EU remain unclear

25. The college sector is examining the potential implications surrounding the UK's planned withdrawal from the EU. The main areas that are likely to be affected are students, staff and funding. Data shows that:

- 7.3 per cent of credits are delivered to non-UK EU nationals (2016-17).
- Colleges' representative body, Colleges Scotland, estimates that non-UK EU nationals make up around three per cent of current staff in the sector. There will however be variation across colleges, with potentially the most significant impact being in Edinburgh and Glasgow.
- The SFC is allocating around £13 million to colleges to deliver European Social Fund (ESF) activity in 2019-20. This includes an assumed ESF contribution from the European Commission of around £5 million (around 0.7 per cent of current total sector income), subject to the submission of successful claims to the Scottish Government. College accounts for 2017-18 show that an additional £2.6 million of European income was received across the sector (0.4 per cent of total sector income). This was predominantly for ERASMUS+ placements.[6]

26. The wider potential implications of EU withdrawal remain unclear. While the direct impact on colleges is likely to be relatively small compared to some other parts of the public sector, colleges anticipate that the indirect effects could be much more significant. This includes potential reductions in EU funding that colleges receive through students funded by other organisations.

Part 2

Performance

Key messages

1 Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over.

2 Colleges are widening access to learning for disabled, ethnic minority and care-experienced students but the proportion of learning delivered provided to students from deprived areas fell slightly in 2017-18. Attainment rates for students in most of these categories continue to be below those of the student population overall.

3 Fewer students are completing their courses but a slightly higher proportion of students gaining a qualification are going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the SFC target of 75 per cent by 2020-21.

4 There continues to be considerable variation across colleges in terms of student outcomes. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

Student numbers increased, and the sector exceeded both the Scottish Government's learning target and the SFC's national activity target

27. In return for their funding from the SFC, college regions agree a range of outcomes they aim to deliver each year. Outcome Agreements contain ten measures to assess colleges' progress. Within these ten measures there are national priority measures based around learning credits delivered, the achievement of qualifications (attainment) and successful students going on to positive destinations.

Exhibit 9
Number of students and amount of learning delivered 2017-18

242,485
Students
(an increase of 6,748)

118,684
Full-time equivalent
(FTE) student places
(an increase of 1,182)
against the Scottish
Government's target of
116,269 FTE

1,778,466
Credits delivered
(an increase of 16,434)
against the SFC's national
target of 1,765,439

Source: SFC

28. Colleges delivered 16,434 more credits than in 2016-17 and exceeded the SFC's national activity target by 0.7 per cent. Five colleges missed their individual target (by a very small percentage in two instances):[7]

- Fife College (by 0.1 per cent)
- New College Lanarkshire College (by 0.2 per cent)
- North East Scotland College (by 1.4 per cent)
- Lews Castle College (by 4.7 per cent)
- Orkney College (by 4.5 per cent).

29. Where regions miss their credit target, the SFC – or the regional body, in a multi-college region – can decide to recover funding. Where the SFC or regional body is aware that a college may miss its target, it can look to redistribute both the activity and the funding to another college or region.

30. UHI is committed to providing access to learning across the region, and to avoid centralising delivery in urban areas. Where colleges in the Highlands and Islands region have not met their targets, UHI is working closely with the colleges to understand, support them and, where necessary, review targets to reflect circumstances. For example, Lews Castle College faces particular challenges due to a declining population in the Outer Hebrides, and UHI is working with the college to assess the effects of this change, and to support the college to adjust its focus to deliver a financially sustainable operating model.

31. Colleges also exceeded the Scottish Government's target of delivering 116,269 FTE places[8], delivering 118,684 FTE places, an increase of 1,182 (one per cent) on 2016-17 (Exhibit 9). The Scottish Government's target has remained constant since 2012-13 though the context in which colleges operate has been changing:

- The young Scottish population has been reducing and is projected to reduce further over the next few years. This is resulting in fewer young students (16-24) at college, and more school-aged and older students.

- The Scottish Government continues to promote widening access to further and higher education. Its aim is for 20 per cent of students entering university to be from the 20 per cent most deprived areas by 2030. While colleges play an important role in supporting a learner's whole journey, this may reduce the number of students that will consider studying at college in future.

Over the past three years, colleges have been providing fewer credits to students aged 16-24 and more to students aged 25 and over

32. In October 2017, the Minister for Further Education, Higher Education and Science confirmed that colleges no longer needed to prioritise full-time education for 16-24 year olds.[9] It is clear that college provision was changing before this announcement. Between 2014-15 and 2017-18, the number of students aged 16-24 fell by 6,887 (or by six per cent). There was a corresponding increase in the number of students aged 25 and over by 6,664 (or by seven per cent). Over the same period, the proportion of learning credits delivered by colleges shifted from students aged 16-24 to students aged 25 and over by four percentage points (Exhibit 10, page 21).

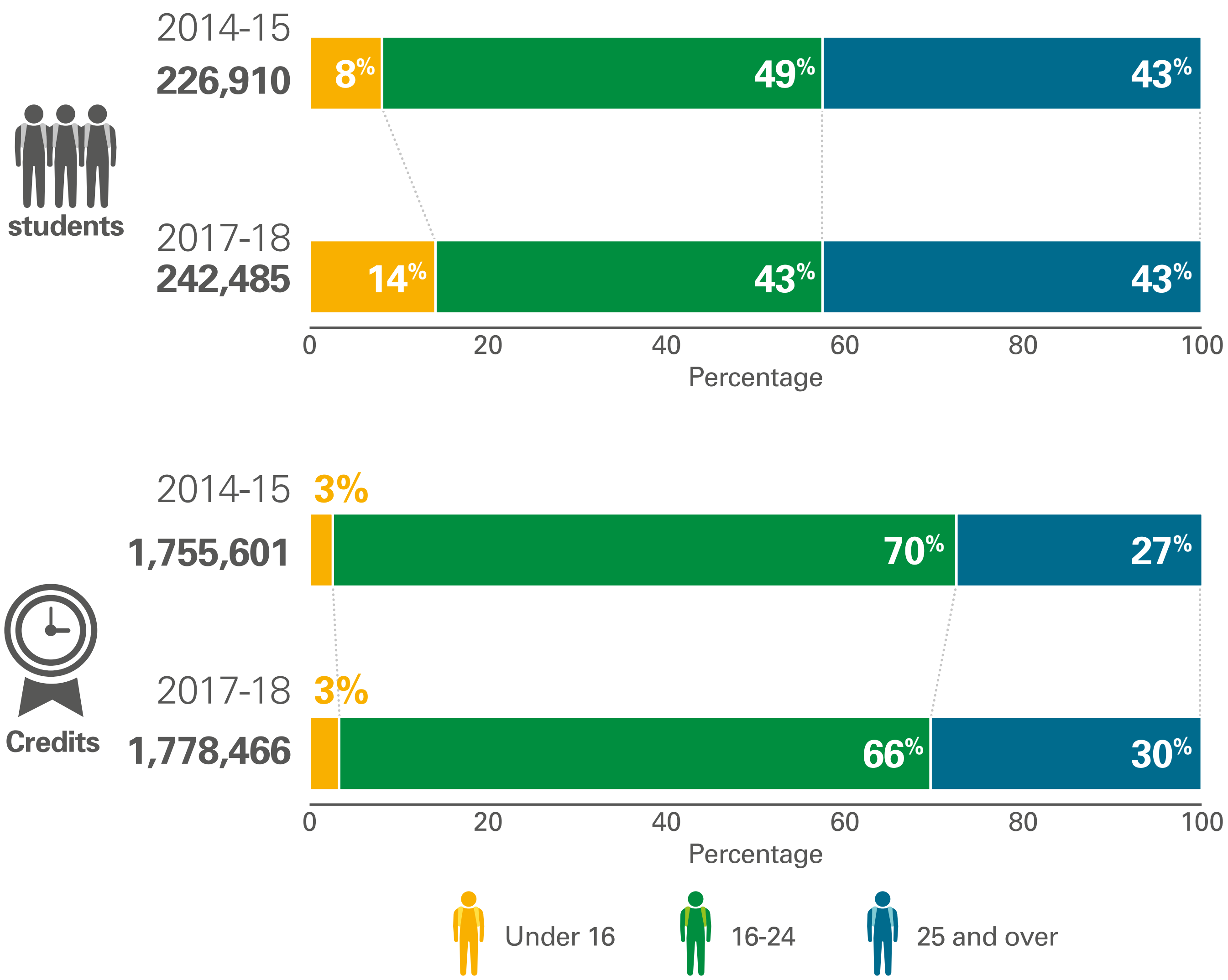
33. Between 2014-15 and 2017-18, there was an increase of 86 per cent (15,815) in the number of school pupils under 16 years of age attending college. Students aged under 16 now make up an additional six per cent of the student population compared to 2014-15. Despite this, credits delivered to under 16 years old have remained very small at only around three per cent. Under the Scottish Government's Developing the Young Workforce programmes, colleges work closely with schools and councils, offering more vocational courses to school pupils. Most courses will not be graded but aim to expand pupils' curriculum choices and help them develop a career path. In 2017-18, all colleges except Newbattle Abbey College delivered credits to students under 16 years of age.[10]

More change is needed to achieve gender balance across important subject areas

34. Female students represent 52 per cent of the student population (125,899) and males 48 per cent (115,945).[11] The number of female students increased by more than the number of male students in 2017-18 (increasing the proportion from 51 per cent last year).

35. In 2016, the SFC committed to increasing the minority gender share in the most imbalanced subjects.[12] Its aim is for the gender balance of students enrolling on important subject areas to be no greater than 75:25 per cent by 2030. Progress towards addressing the long-standing gender imbalances has been limited and will require a concerted effort from schools, colleges and wider society in making sustainable change (Exhibit 11, page 22).

Exhibit 10
Change in the number of students and learning credits delivered across the sector over the past three years



Note: The proportion of credits for 2017-18 doesn't add up to 100 per cent due to rounding.

Source: SFC

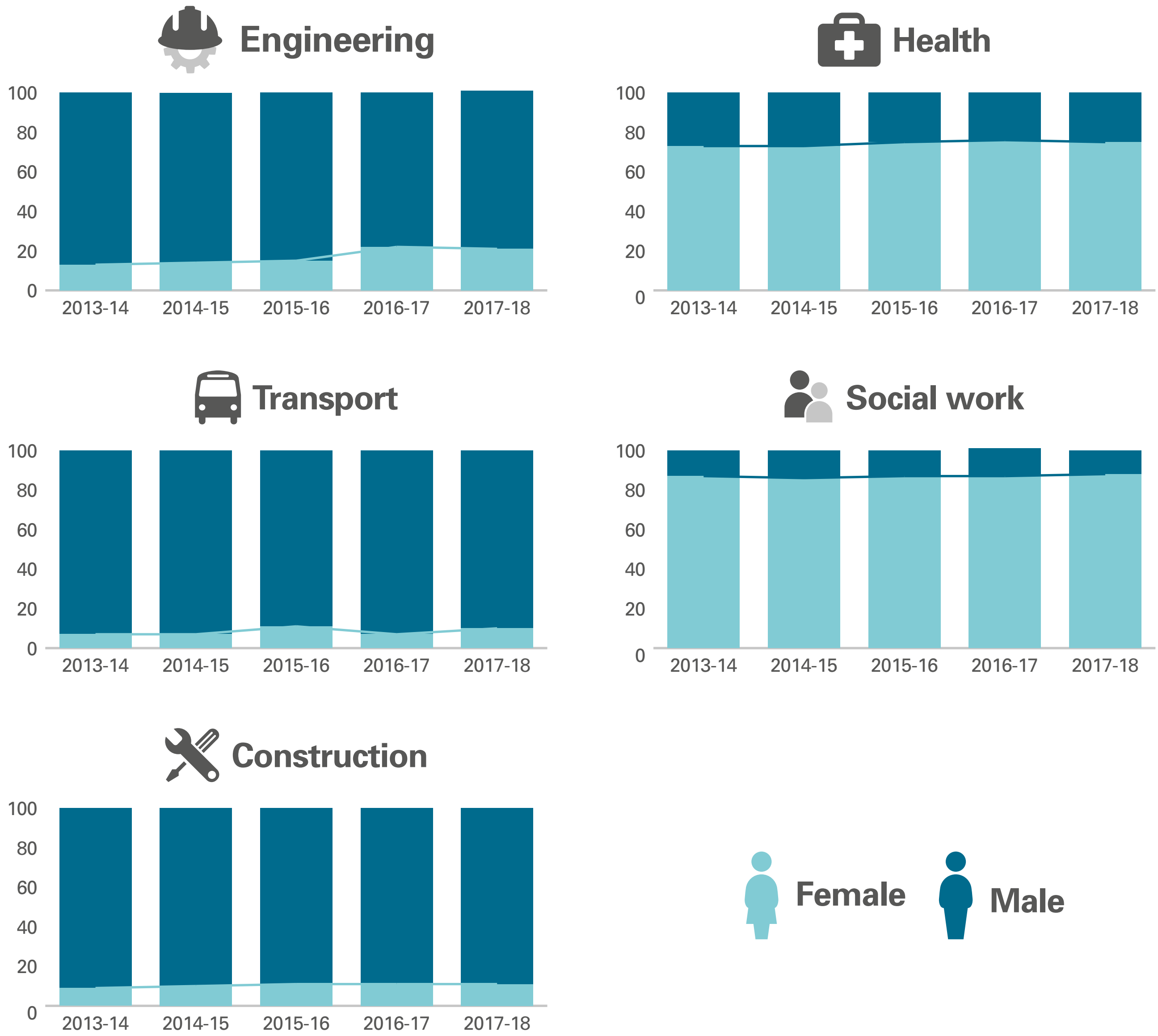
Eighteen college boards have more men than women

36. In February 2019, 246 board members across the sector were men (57 per cent of the total members) and 187 were women (43 per cent of the total members). The number of men increased by 12, while the number of women decreased by four.

37. Four college boards have more women members than men and five have an equal gender split. Orkney College Board has the most uneven gender balance, with 19 men and three women.

38. The Gender Representation on Public Boards (Scotland) Act 2018 requires 50 per cent of non-executive members on public boards to be women by 2022. The gender balance of college boards is not entirely under the control of colleges as some members are elected to their position.

Exhibit 11
Proportion of students on each course by gender (headcount)



Source: SFC

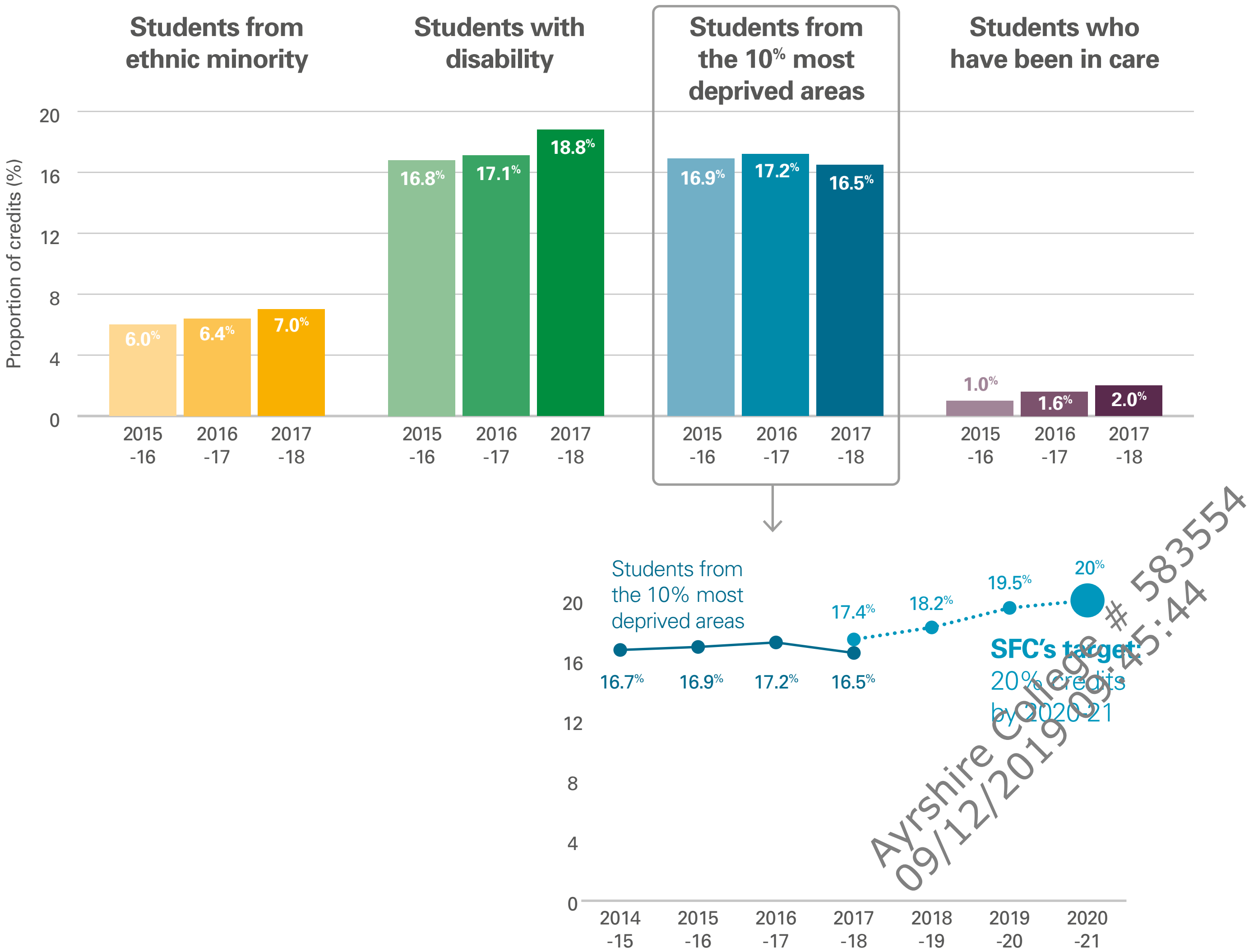
Colleges are widening access to students from a range of backgrounds, but are not meeting targets for students from the most deprived areas

39. Colleges are committed to widening access to learning for all, particularly those who may have found it more difficult to enter further and/or higher education. Across the sector, the proportion of credits colleges deliver to students from an ethnic minority, who have been in care or who have disabilities has increased in recent years.[13]

40. The proportion of credits that colleges deliver to students from the ten per cent most deprived areas had also been increasing, but this trend reversed in 2017-18.[14] The proportion of credits delivered to these students, at 16.5 per cent, was below the SFC's national target of 17.4 per cent.[15] The reasons for this decrease are likely to be complex. For example, the trend is for school pupils to stay on longer at school. Also, in line with the Scottish Government's aim of widening access to higher education, there has been an increase in the proportion of students from deprived areas going to university. Increasing the proportion of credits to students from the most deprived areas will require a coordinated effort from schools, colleges, universities and other relevant stakeholders (Exhibit 12).

41. Based on recent trends, the SFC's target of delivering 20 per cent of credits to students from the ten per cent most deprived areas by 2020-21 looks difficult to achieve.

Exhibit 12
Proportions of credits delivered to students from selected groups



Source: SFC

Exhibit 13

National performance summary, 2017-18

The proportion of students completing their courses is falling, but the proportion of full-time students going on to positive destinations is improving.

	Attainment rates	Retention rates	Positive destinations	Satisfaction
Further education				
Full-time	66.1 ↑ (0.8%)	74.9 ⇄ (0.0%)	86.0 ↑ (1.9%)	93.1 ↑ (0.3%)
Part-time	78.2 ↑ (1.1%)	89.8 ↓ (0.2%)	–	–
Higher education				
Full-time	71.3 ↓ (0.3%)	81.6 ↓ (1.2%)	81.6 ↑ (1.4%)	83.2 ↓ (4.2%)
Part-time	80.4 ↑ (1.8%)	91.6 ↓ (0.3%)	–	–

(%) – Percentage change from the previous year

Note: The latest positive destinations data available is for 2016-17. Percentage change is from 2015-16.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; and *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018

Student attainment has remained relatively static in recent years and further work is required to address the attainment gap

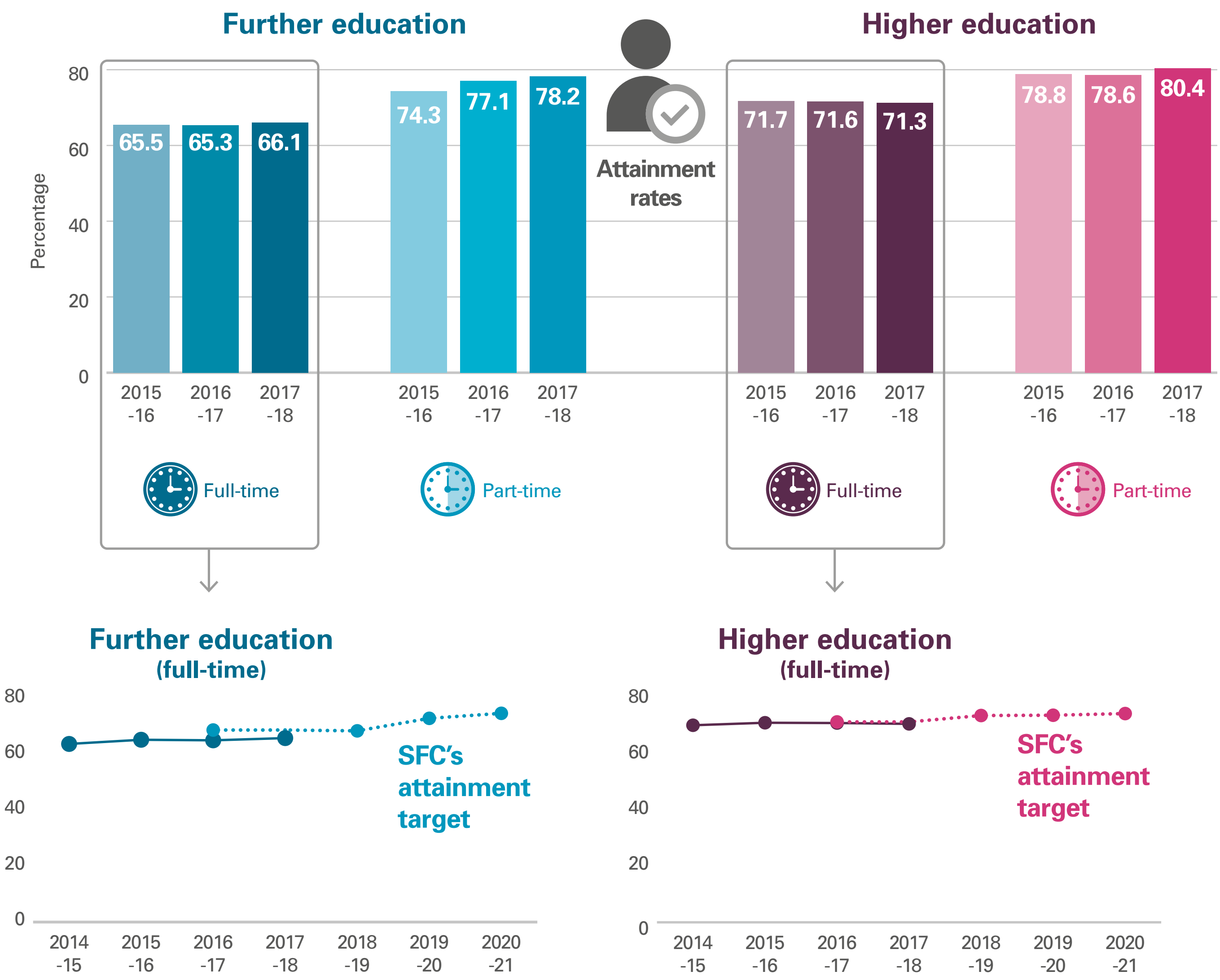
42. The SFC aims to improve attainment rates (the proportion of students completing their course successfully) in full-time further education and higher education to 75 per cent by 2020-21. The average attainment rate for full-time further education improved in 2017-18. In contrast, the average attainment rate in full-time higher education fell slightly. Both remain below the SFC's long-term target, with a significant improvement needed in further education over the next three years. The SFC has set intermediate national attainment targets for full-time students, although it did not set a target for 2017-18. It does not set national targets for part-time students (Exhibit 14, page 25).

Only two regions met all of their agreed overall attainment targets

43. There is wide variation in regional performance against attainment targets (Exhibit 15, page 26):

- West College Scotland region met all four targets. Highlands and Islands region met both targets for further education.
- Two regions missed all four targets (Dumfries and Galloway and North East Scotland colleges).

Exhibit 14
Attainment rates



Source: SFC

44. The SFC does not report the performance of college regions against regionally agreed attainment targets in its Summary of Progress and Ambitions report.[16]

45. In 2018-19, the SFC plans to improve its use of Outcome Agreements to achieve its desired outcomes for learners, for skills development and ultimately for inclusive economic growth in Scotland. This includes agreeing more ambitious targets with college regions to deliver Scottish Government priorities. Based on performance to date, some existing targets will be very challenging for colleges. It is important for the SFC and colleges to be clear on what will be needed to deliver the more ambitious targets.

Exhibit 15
Attainment rates: progress towards outcome agreement targets

	Attainment target met in 2017-18		
	No of college regions providing this type of study[1]	No of college regions	Percentage
Further education			
Full-time	15	6	40%
Part-time	13	9	69%
Higher education			
Full-time	13	2	15%
Part-time	11	5	45%

Note: 1. Total numbers are based on 13 college regions plus SRUC and Newbattle Abbey College, with the exceptions being: Part-time further and higher education: Ayrshire and Newbattle Abbey colleges did not set 2017-18 targets for these measures in their Outcome Agreement; and Higher education: College outcome agreement measures are not applicable to Highlands and Islands region or SRUC at this level.

Source: SFC

More work is required to close the attainment gap for certain groups of students

46. Students from an ethnic minority, on average, achieve better results than the overall student population, but more work is required to close the attainment gap for the rest of the identified student groups.[17] Students who have been in care have the lowest attainment rates, and were the only group where attainment decreased in 2017-18 (Exhibit 16, page 27).

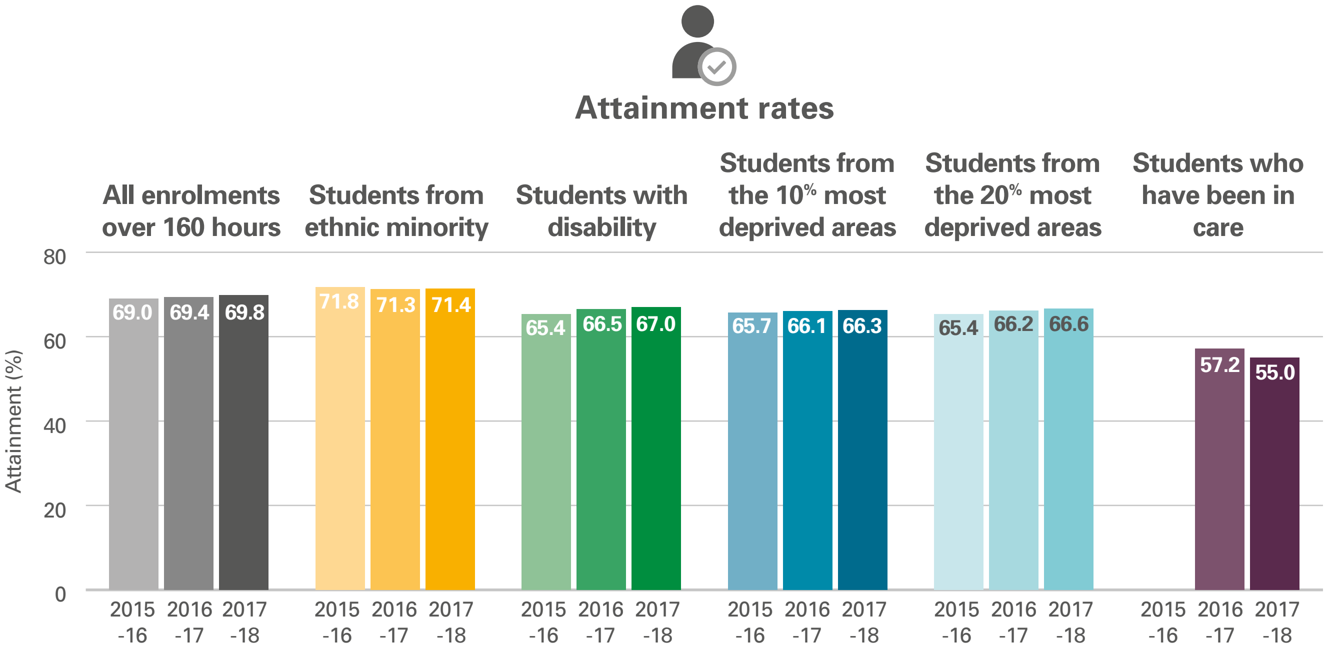
47. The SFC is committed to raising the attainment rates for students from the most deprived areas to achieve overall attainment rates of 75 per cent by 2027-28.[18] In *Scotland's colleges 2018*, we reported that the attainment gap between students from the least and most deprived areas had increased between 2011-12 and 2016-17.

48. Last year, we reported that the attainment gap in 2016-17 increased between those students from the least and most deprived areas. In 2017-18, the attainment gap for those in further education closed slightly, from 7.4 to 6.5 percentage points (69.7 per cent compared to 63.2 per cent). The attainment gap for those in higher education was 7.7 percentage points, the same as in 2016-17 (74.4 per cent compared to 66.7 per cent).

Fewer students completed their course in 2017-18

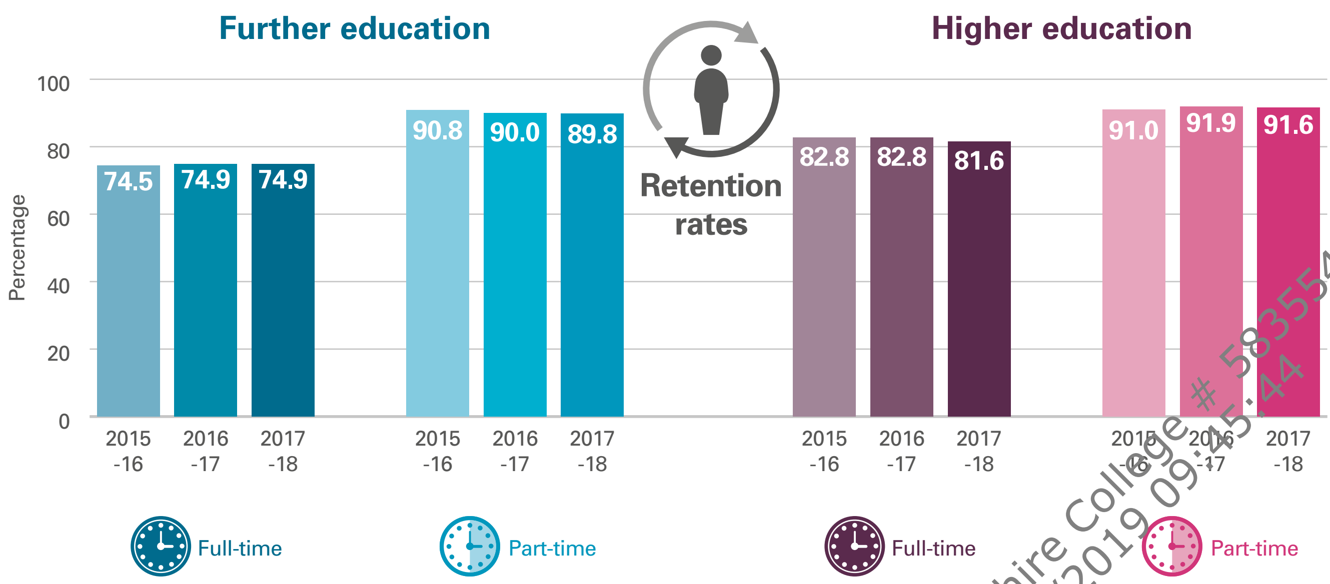
49. Challenges still exist in improving student retention (the proportion of students completing their course, either successfully or partially). The proportion of full-time further education students that completed their course remained unchanged in 2017-18 but the proportions fell for all other types of study (Exhibit 17, page 27).

Exhibit 16
Attainment on courses over 160 hours for students from selected groups



Source: SFC

Exhibit 17
Proportion of students completing their course



Source: SFC

50. Since 2017, the Scottish Government has been running a College Improvement Project (CIP) to raise attainment and retention. It has worked with five colleges through the CIP, trying to identify what improvement can be shared across the sector.[19] The project is scheduled to finish in 2019. While it is too early to assess the impact of the project, more work is required to improve retention. The Scottish Government plans to monitor changes in retention as improvement actions are scaled up and spread to different courses within the colleges and across the sector.

A greater proportion of students who qualify are going on to positive destinations

51. Latest data (covering 2016-17) shows that 95 per cent of full-time student qualifiers with destinations confirmed entered a positive destination, such as employment or continued education (2015-16, 94.9 per cent).[20] Of all qualifiers, 84.5 per cent moved into a positive destination (2015-16, 82.7 per cent). Around two-thirds of all qualifiers went on to further study or training (up by one percentage point from 2015-16). 17.7 per cent of all qualifiers entered work (up by 0.7 percentage point).

The SFC does not publish college-level student satisfaction data

52. Student satisfaction is a performance measure in college Outcome Agreements. For 2017-18, the SFC reported student satisfaction for the sector, but only using data from those colleges that received at least a 50 per cent response rate to their survey (15 of 26 colleges for full-time further education and five of 15 colleges for full-time higher education). It does not publish student satisfaction data for individual colleges or results for part-time and distance or flexible learning students. Publishing good-quality information on student satisfaction for individual colleges would allow students, and potential students, to determine whether a college provides a good experience for students. It also means that colleges can be effectively held to account by other stakeholders.

53. The SFC has been working with the college sector to conduct the Student Satisfaction and Engagement Survey (SSES) since 2015-16. However, over the past three years, response rates to the SSES have varied noticeably across colleges and the SFC does not yet believe that all colleges are conducting the survey in a way that allows either it or individual colleges to place reliance on the survey results. The SFC held an event for colleges in February 2019 to explore ways to improve response rates.

College performance varies widely for student outcomes

54. Taken together indicators on student attainment, retention, destinations and satisfaction provide a broad indication of a college's performance. There was significant variation in performance across colleges; the proportion of students from deprived areas can influence performance, but it is clearly not the only factor (Exhibit 18, page 29).

Exhibit 18

Performance indicators for full-time further education in colleges

Colleges	% credits for FT	Attainment rates	Retention rates	Positive destinations	Satisfaction	College's self-evaluation for 'Outcome and Impact'
Glasgow Kelvin College	45.5	60.2 ↓	69.0 ↓	82.9 ↑	-	Good
West College Scotland	58.5	69.2 ↑	78.1 ↑	80.6 ↓	-	Good
Glasgow Clyde College	67.1	66.1 ↑	74.9 ↑	82.8 ↑	96.7 ↑	Good
Ayrshire College	74.4	66.9 ⇄	73.9 ↓	82.6 ↓	-	Good
City of Glasgow College	58.9	67.9 ↓	76.3 ↓	91.2 ↑	84.5 ↓	Very Good
New College Lanarkshire	75.4	61.4 ↑	68.3 ↑	89.9 ↑	89.0 ↑	Satisfactory
Dundee and Angus College	70.0	75.4 ↑	81.4 ↑	81.7 ↑	95.4 ↑	Very Good
Fife College	61.8	59.1 ↑	73.4 ↑	71.7 ↑	91.9 ↑	Satisfactory
South Lanarkshire College	74.5	69.7 ↓	76.2 ↑	89.1 ↓	98.5 ↑	Very Good
West Lothian College	67.9	65.5 ↑	75.3 ↑	89.7 ↑	-	Good
Forth Valley College	51.8	71.4 ↓	77.2 ↓	75.6 ↓	95.1 ↓	Very Good
Edinburgh College	62.9	60.7 ↓	70.6 ↓	85.9 ↑	-	Good
Newbattle Abbey College	100.0	52.1 ↓	69.9 ↓	81.3 ↑	100 ↑	Good
Dumfries and Galloway College	70.6	59.6 ↓	70.6 ↑	88.3 ↑	-	Satisfactory
Perth College	78.4	70.0 ↑	77.2 ↓	85.2 ↑	96.2 ↑	Good
Borders College	78.0	68.7 ↑	77.1 ↑	86.9 ↓	-	Very Good
SRUC Land based	63.9	68.3 ↓	82.3 ↓	87.8 ↓	-	-
North Highland College	55.7	71.8 ↑	83.2 ↑	90.0 ↑	-	Very Good
Argyll College	47.4	76.0 ↑	82.0 ↑	80.9 ↓	94.3 ↑	Very Good
West Highland College	48.1	69.8 ↓	77.8 ↓	87.4 ↑	100 ↑	Very Good
Inverness College	69.5	70.6 ↑	77.7 ↑	87.3 ↓	94.7 ↑	Very Good
North East Scotland College	72.6	66.6 ↑	77.0 ↑	87.2 ↓	94.0 ↑	Good
Lews Castle College	46.5	60.8 ↓	71.6 ↓	90.3 ↑	100 ↑	Satisfactory
Moray College	74.2	69.0 ↑	75.5 ↑	84.2 ↑	94.0 ↑	Good
Orkney College	33.1	75.0 ↓	80.3 ↓	84.3 ↓	-	Very Good
Shetland College of Further Education	32.0	77.8 ↓	85.6 ↑	97.2 ↑	-	Very Good
Number of colleges where performance increased in 2017-18 ↑		13	15	16	13	
Proportion of total number of colleges %		50%	58%	62%	87%	

Quartile: Highest 1 2 3 4 Lowest

Notes:
1. Colleges are listed according to the proportion of students from the most deprived areas (Glasgow Kelvin College having the highest proportion).
2. Percentage point changes are from 2016-17 (For leaver's destination data, from 2015-16. See Note 3).
3. The latest leaver's destination data available is for 2016-17. The figures are across further and higher education study. College-level figures published are not broken down by the two.
4. The overall student satisfaction rates are included only for colleges with a response rate of 50 per cent or more, in line with the SFC publication.
5. For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018; Colleges' self-evaluation reports, 2019; and SFC's Infact database

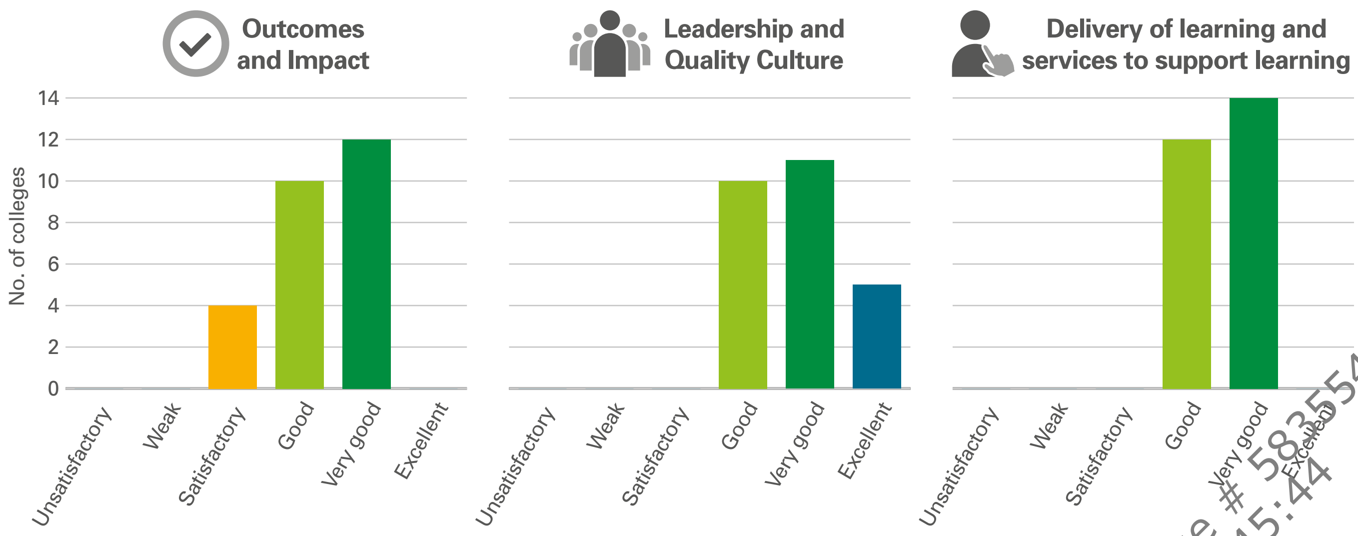
Colleges have published enhancement plans to improve their performance

55. The SFC and Education Scotland, the national body for supporting quality and improvement in learning and teaching, introduced a new quality assessment evaluation framework for colleges, *How good is our college?* in 2016.[21] The new quality framework is based on a validated self-evaluation and is intended to enable colleges to assess progress and develop an improvement plan.

56. In January 2019, individual college results were published for the first time with grades in three categories: Outcomes and impact; Leadership and quality culture; and Delivery of learning and services to support learning. All colleges graded themselves as 'Good' or above for two of the three categories. In general, colleges assessed their leadership most highly and the outcomes and impact for students least highly (Exhibit 19).

57. The factors considered in relation to 'Outcomes and impact' map closely to attainment and retention but not to positive destinations and student satisfaction. Some colleges which consider their performance to be 'Good' or better have relatively low levels of attainment (in the bottom half of the quartiles). It is not clear how colleges' own assessment of performance fits with the views of their students and staff.

Exhibit 19
College's self-evaluation grades



Source: Education Scotland

Endnotes

1 *College Staffing Data 2017-18*, Scottish Funding Council, 2019.

2 Financial forecast returns submitted by colleges to the SFC in September 2018 and covering the period to 2022-23.

3 College sector estates condition survey, Scottish Funding Council, December 2017.

4 This includes £1.5 million to support business cases for the highest priority campuses and £1.4 million for very high priority maintenance at Fife College.

5 *Outcome agreement funding for colleges*, Scottish Funding Council, 2019.

6 Erasmus+ is the European Union programme for education, training, youth and sport. It runs for seven years, from 2014 to 2020. Erasmus+ aims to modernise education, training and youth work across Europe. It is open to education, training, youth and sport organisations across all sectors of lifelong learning, including school education, further and higher education, adult education and the youth sector.

7 Lanarkshire region and the Highlands and Islands region both met their regional targets.

8 *College Statistics 2017-18*, Scottish Funding Council, 2019.

9 2018-19 Outcome Agreement Guidance, Letter from Minister for Further Education, Higher Education and Science to Chair of Scottish Funding Council, 2017.

10 SFC's Infact database.

11 According to the SFC's Infact database, 641 students did not give their gender or described it as 'Other'.

12 Gender Action Plan, Scottish Funding Council, 2016.

13 *College Statistics 2017-18*, Scottish Funding Council, 2019.

14 The level of deprivation is calculated using the Scottish Index of Multiple Deprivation (SIMD) 2016. In the previous two years, it is based on the SIMD 2012.

15 *College Region Outcome Agreements: Summary of Progress and Ambitions*, Scottish Funding Council, September 2017.

16 *College Region Outcome Agreements Summary of Progress and Ambitions report 2018*, Scottish Funding Council October 2018, summarises performance for the sector from colleges regions' Outcome Agreements.

17 *College Performance Indicators 2017-18, Scottish Funding Council*, 2019. Attainment on courses over 160 hours.

18 *Guidance for the development of College Outcome Agreements: 2017-18 to 2019-20*, Scottish Funding Council, 2016.

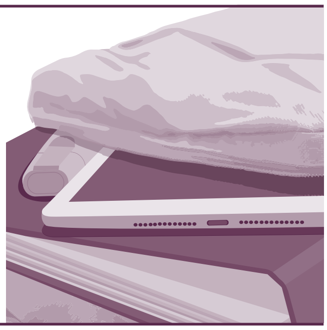
19 Dundee and Angus College, Edinburgh College, Inverness College UHI, New College Lanarkshire and West College Scotland.

20 *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018. The data available is for full-time students only across further and higher education.

21 *How good is our college?*, Education Scotland, 2016.

Appendix

Audit methodology



What the report covers

This report looks at all colleges in the sector and Scotland's Rural College (SRUC), to present a comprehensive picture of the sector and its performance.

Until 1992, Scottish councils ran all publicly funded colleges in Scotland. Under the Further and Higher Education (Scotland) Act 1992, most of these colleges established their own corporate body and boards of management. The boards of management took over responsibility for the financial and strategic management of the colleges. These colleges are referred to as incorporated colleges and produce accounts which are subject to audit by the Auditor General for Scotland. The remaining six colleges are generally referred to as non-incorporated colleges. SRUC is classed as a higher education institution but counts towards the achievement of the national target for colleges. The report primarily focuses on incorporated colleges. However, we state clearly where we include data relating to non-incorporated colleges.

The college sector in Scotland comprises the 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions (as shown in Appendix 2 of *Scotland's colleges 2018*). Ten of these regions consist of one college. The three remaining regions (Glasgow, Highlands and Islands, and Lanarkshire) have more than one college. The individual colleges in Glasgow and in Highlands and Islands are assigned to the relevant regional strategic body, ie Glasgow Colleges' Regional Board (GCRB) or University of Highlands and Islands (UHI). In Lanarkshire, New College Lanarkshire is the regional body and South Lanarkshire College is assigned to the Lanarkshire Board.

Financial commentary

Incorporated colleges prepare their accounts based on the academic year, which runs from 1 August to 31 July. This differs from the Scottish Government's financial year, which runs from 1 April to 31 March. We use the following conventions in this report:

- 2017-18 when referring to figures from colleges' accounts, or figures relating to the academic year
- 2017/18 when referring to funding allocations made in the Scottish Government's financial year.

Financial figures in real terms are adjusted for inflation. The base year for this report is 2017-18. The GDP deflator provides a measure of general inflation in the domestic economy. We have used the GDP deflator from March 2019 to calculate the real-terms figures for other years.

Our audit involved

- Analysing relevant Scottish Government budget documentation, colleges' audited accounts and auditors' reports covering the financial periods ending July 2018.
- Analysing information held by the SFC, including financial, performance and activity data.
- Interviewing Colleges Scotland, student unions, trade unions, the SFC and the Scottish Government.
- Analysing data that we requested from colleges' external auditors.

Detailed methodology for specific sections in the report

Underlying financial position (page 7)
Incorporated colleges reported an overall deficit of £29.8 million in their 2017-18 audited accounts. In reporting the underlying financial position, we have used the SFC's data for each college based on the accounts direction it issued in 2018.

Calculating student numbers (page 19)
In this report we present student numbers by headcount, drawn from the SFC's Infact database. Where possible, this headcount excludes any multiple enrolments, meaning if a student had been enrolled at two colleges in 2017-18 they would only be counted once. Where we show full-time and part-time student numbers this will include multiple enrolments.

In line with last year's report, we have included non-incorporated colleges and SRUC to give a comprehensive picture of performance against the Scottish Government's national target for learning activity.

Scotland's colleges 2019

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